
How to mobilise \$2.8 trillion to
prevent life-threatening deprivation,
reverse austerity measures,
and mitigate the human impacts
of climate change

Financing the global sharing economy

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Contents

Executive summary	4
Part 1: The sharing economy	14
Part 2: The global emergency	26
Part 3: 10 policies to finance the global sharing economy	36
1. Tax financial speculation	40
2. End fossil fuel & biofuel subsidies	52
3. Divert military spending	66
4. Stop tax avoidance	78
5. Increase international aid	90
6. End support for agribusiness	102
7. Redistribute IMF resources	116
8. Tax carbon emissions	130
9. Cancel unjust debt	142
10. Protect import tariffs	156
List of boxes, figures and tables	168
Acknowledgements	169

Executive summary

Humanity is facing a global emergency. Extreme poverty and climate-related disasters are taking the lives of over 40,000 people every single day and severely affecting many millions of others. At the same time, dramatic cutbacks in public spending on social welfare and essential services are making it increasingly difficult for many families to meet their basic needs, even in the richest nations.

This global emergency exists largely because governments have pursued policies over many decades that undermine the 'sharing economy' – systems of welfare and redistribution that have been progressively established to protect the poor and vulnerable. In particular, the international community could do much more to scale up sharing between nations in order to help developing countries meet the basic needs of their citizens and strengthen domestic systems of social protection.

Dealing with the structural causes of the global emergency will require wholesale reform of the world economy on a scale never before attempted. As an immediate response, the international community has the means to mobilise staggering amounts of finance to end poverty-related deaths and needless suffering as a foremost priority. If taken together, the policy recommendations in this report could enable governments to redistribute more than \$2.8 trillion within a short number of years, money that could be used to prevent life-threatening deprivation, reverse austerity measures and mitigate the human impacts of climate change.

We already have the institutions, mechanisms and expertise in place to take this crucial first step towards world rehabilitation. What lacks is a sufficient level of public support across the world to overcome the political and commercial barriers to implementing these critical measures. Mobilising world public opinion to strengthen and scale up the global sharing economy must therefore be an immediate priority for campaigners and engaged citizens in all countries.

The principle of sharing has always formed the basis of human relationships in societies across the world. Contrary to the common misconception that people are individualistic and selfish by nature, a growing body of evidence demonstrates that human beings are naturally predisposed to cooperate and share in order to maximise our chances of survival and collective wellbeing.¹

In recent years, sharing has re-asserted itself in the economic and political fields through such developments as open-source software, the ‘collaborative consumption’ movement and the renewed focus on ‘the commons’. Yet one of the most important expressions of sharing today often goes unacknowledged. Arguably, modern systems of social welfare are the most advanced forms of sharing ever established, and the vast majority of people in developed countries are instrumental to their proper functioning.

Systems of welfare are essentially complex ‘sharing economies’ that exist in a variety of forms throughout the world. Through the process of progressive taxation and redistribution, we share a portion of the nation’s financial resources (personal income and assets, as well as company profits) for the benefit of society as a whole. In most developed countries, governments redistribute a large proportion of tax revenue to ensure that the wider population can access healthcare, education and other important forms of social security.

However, the process of establishing and strengthening the sharing economy is still in its infancy in some parts of the world. Many low-income countries do not have the resources they need to build effective systems for redistributing wealth and income through taxation and the provision of public services. In many cases, developing countries suffer many additional social, environmental and financial problems that hinder their economic development. Furthermore, a lack of generosity and the self-interest of donor countries has severely compromised existing systems of overseas aid—currently one of the only mechanisms used by rich industrialised nations to finance the global sharing economy.² These realities point to the urgent need for scaling up sharing *between* countries as well as within them.

Undermining the sharing economy

Rather than strengthening and scaling up the sharing economy on a national and global basis, for decades governments have pursued policies that undermine systems of social welfare and exacerbate poverty and inequality. Since the 1980s, governments have increasingly rolled back those policies that share the proceeds of growth more fairly across society, in favour of promoting unregulated wealth creation by the few. Today, the very basis of the sharing economy is being further eroded in countries where austerity measures are dramatically reducing public spending on social welfare and essential services.

Neglecting policies that redistribute income and wealth in a world that is already highly unequal has resulted in what can only be described as a global emergency. For example, poverty rates across OECD countries have been rising for a decade and took a sharp turn for the worse after the global financial crisis of 2008.³ In poorer countries, just under a billion people are officially classified as hungry while almost half of the developing world population is trying to survive on less than \$2 a day.⁴ At the same time, 300 million

people are currently affected by global warming and 300,000 people lose their lives every year as a result.⁵ Altogether, around 15 million people die every year largely due to a lack of access to nutritious food, basic healthcare services, or clean water for drinking and sanitation—equivalent to more than 40,000 preventable deaths every single day.⁶

The underlying causes of many of the most urgent problems facing humanity are complex and addressing them will necessitate extensive reforms to the institutions and policies that underpin the global economy—a task that is widely considered the defining challenge of our times. In this process of world rehabilitation, almost every aspect of society will need to be restructured—from the way we extract, produce, distribute and consume resources, to the influence that multinational corporations wield over society and policymaking. But humanity cannot afford to wait for these transformative changes to take place while millions of people are facing a condition of life-threatening poverty. We urgently need to take a bold step towards saving lives and ending extreme deprivation today—and as this report demonstrates, doing so is eminently affordable.

Box 1:

What is the sharing economy?

The sharing economy is a broad term used in this report that encompasses the many systems of sharing and redistribution that exist locally, nationally and globally—whether facilitated by individuals, states or other institutions. It is concerned with the social, economic, environmental, political and spiritual benefits of sharing both material and non-material resources—everything from time and knowledge to money and natural resources.

In comparison, the global sharing economy refers specifically to systems of sharing and redistribution that are international or global in nature—whether facilitated directly by people, organisations and governments or by global institutions like the United Nations. It refers to the many methods by which the international community can share their financial, technical, natural and other resources for the common good of all people. The global sharing economy is still in its infancy, but is nonetheless an important expression of the growing sense of solidarity and unity between people and nations.

Mobilising the world's financial resources

This report demonstrates how governments could harness more than enough money to strengthen sharing economies across the world in order to reverse policies of economic austerity, prevent life-threatening deprivation and mitigate the human impacts of climate change. By utilising the policy options summarised below, governments could mobilise over **\$2.8 trillion** every year to bolster the sharing economy both within and between nations.

The structures, mechanisms and expertise needed to utilise this additional finance have long been in place. For example, there are numerous international agencies working ceaselessly to provide disaster relief and prevent poverty-related deaths throughout the world. The international community has already established an array of funds and other programs to facilitate climate change adaptation and mitigation in developing countries.⁷ In terms of social protection, many developing countries already have various systems of welfare in place to provide essential public services to their citizens, and it could be possible to ensure that a basic level of social protection is available to the world's poor for as little as 2% of global GDP.⁸

Making better use of existing institutions and available finance also makes sound economic sense at a time when economies across the world are contracting and unemployment is rising. Reinforcing the global sharing economy could save countless lives and enable millions of people in the Global South to contribute to the social, economic, political and cultural life of their nation. Reversing austerity measures would also have a significant impact on economies by increasing the health, wellbeing and disposable income of citizens in these economically advanced regions. In an interdependent world where trade and financial relationships span the globe, this massive investment in human lives could stimulate demand, create employment opportunities and substantially increase government revenues.

Many European governments understood the need to scale up the sharing economy after the Second World War when they brought in a comprehensive package of social welfare policies despite levels of national debt that surpassed those of today. President Roosevelt introduced similar commitments in the US during the country's most severe economic depression as part of the New Deal series of economic programs between 1933 and 1936. In 1948, the US went on to kick-start a massive transfer of financial resources to a number of European countries as part of the Marshall Plan, designed to aid reconstruction and economic recovery in those nations devastated by war. Instead of further eroding these landmark commitments to share financial resources in ways that benefit the wider community at home and abroad, it is high time we scaled up the sharing economy at every level of society.

Box 2:

The small cost of saving lives

- Lifting 1.4bn people above the \$1.25 a day extreme poverty line: \$173bn per year⁹
- Central Emergency Response Fund (CERF) shortfall for 2011: \$45m¹⁰
- The total cost of meeting the MDG financing gap for every low-income country: \$143bn in 2010¹¹
- World Food Program shortfall for 2011: \$141m¹²
- Providing vaccines for all infants in poor countries: \$3bn¹³
- Financing the Green Climate Fund: \$100bn per year¹⁴
- Providing basic social protection to all people living in extreme poverty: \$1.26tn¹⁵

Overcoming the barriers to progress

Implementing the measures highlighted in this report could yield major gains for humanity and mark a tremendous leap forward for the international community, paving the way for more substantial reforms that must urgently follow. If we have the money, the institutions and technical knowledge needed to ameliorate the worst effects of the global emergency—and it makes sound economic sense to do so—why do we continue to neglect and undermine the sharing economy on both national and international levels?

These questions are rarely put to policymakers, and there is a stark lack of public debate about the extent of the global humanitarian emergency and how easily life-threatening deprivation could be prevented if we prioritised doing so. When pressed on these issues, elected officials often claim that their governments have simply run out of money to safeguard their own citizens, let alone help those living abroad. This lack of ambition and political inertia has many complex causes, including the dominance of a purely market-based approach to addressing the world's problems among policymakers, economists and business leaders. For too long, governments have pursued an economic

model that overemphasises the private sector and free markets, thereby undermining the sharing economy by placing profit and growth before the welfare of all people and the environment.

In light of this political reality, implementing even modest proposals such as closing tax havens, diverting perverse subsidies or reducing military spending will require massive public support. The hope for a better world rests with the participation of the global public in a call for reform that extends beyond national borders. As the widespread mobilisation of people power in 2011 demonstrated, only a united and informed world public opinion is stronger than the private interests that obstruct progressive change from taking place. The responsibility to take a stand falls squarely on the shoulders of ordinary people, not just the usual campaigners and civil society organisations.¹⁶ It is imperative that millions more people recognise what is at stake and take the lead as proponents for change—the wellbeing of planet earth and future generations largely depends on this shift in public consciousness.

Policies to finance the global sharing economy

Parts 1 and 2 of this report describe systems of progressive taxation and social welfare as preeminent examples of sharing economies, and directly relate inequality, poverty and life-threatening deprivation to our failure to share the world's wealth and resources more equitably. These sections illustrate how strengthening and scaling up the sharing economy can save lives, increase bonds of solidarity and reduce inequalities within and between countries. Each of the recommendations presented in part 3—from tax and debt justice to redirecting perverse government subsidies—provide concrete policies that governments can implement in order to finance the global sharing economy.

Many of these policy measures would also be hugely beneficial in their own right by helping to establish a world with less military spending, less national debt, less corporate welfare, a fairer international trade regime, and more progressive and effective forms of taxation. Achieving these long-standing and widely championed goals would be an enormous step in the right direction for the international community, signalling a triumph for millions of people working towards progressive change.

If public support for all the policies and campaigns in this report continues to grow, the possibility of mobilising public opinion on a global scale and transforming governmental policy fast becomes a reality. For this to occur, everyone reading this report—especially those who are new to these issues—must add their weight to the global call for sharing and justice.

Summary of the 10 policy recommendations

1. Tax financial speculation – \$650bn

Speculation in financial markets is increasingly disconnected from the ‘real’ economy (concerned with actually producing goods and services) and has destabilised economies all over the world. The main beneficiaries of speculation are a minority elite of traders, investment banks, hedge funds and other companies that can reap huge profits from market volatility.

A financial transaction tax (FTT) could help regulate markets by disincentivising the most destabilising trading practices. If implemented globally, an FTT could raise as much as \$650bn a year for governments to tackle poverty, reverse austerity measures and address climate change.¹⁷

This is a campaign that civil society can feasibly win. But with significant opposition to the tax remaining from those within the financial industry and many politicians across North America and Europe, it is imperative that campaigners persist in their demands for an FTT to be implemented globally.

2. End fossil fuel subsidies – \$531bn

The burning of fossil fuels is the main contributor to global warming and is largely responsible for carbon emissions reaching a record high last year. It will be impossible to keep CO₂ emissions to safe levels if governments continue to encourage the overuse of ‘dirty energy’ through the massive subsidies it provides to the producers and consumers of fossil fuels.

Governments could raise up to \$531bn a year if all forms of biofuel and fossil fuel subsidies are progressively phased out by 2020.¹⁸ This colossal sum of money is sufficient to secure universal access to energy, leverage a significant investment in renewables on a global scale, and finance programs that can help countries mitigate and adapt to climate change.

Campaigns to end fossil fuel subsidies have considerable support among the international community, and must remain a key public demand as pressure mounts on governments to take much bolder action in the fight against climate change.

3. Divert military spending – \$434.5bn

Military spending by governments worldwide has risen by more than 50% since 2001, reaching over \$1.7tn in 2011 – equivalent to around \$250 annually for each person in the world. As a first step towards reducing armed conflict and war, it is crucial that governments introduce substantial reductions to their military budgets.

Diverting only a quarter of current global military expenditure would free up \$434.5bn annually that could instead be used to save lives, prevent extreme deprivation and strengthen United Nations peacekeeping efforts.

Given the dire threat to world peace posed by poverty, inequality and diminishing natural resources, countries must urgently adopt a new security strategy based on international cooperation and economic sharing in order to address the underlying causes of conflict.

4. Stop tax avoidance – \$349bn

Tax avoidance by wealthy individuals and multinational corporations means governments often miss out on huge amounts of additional public revenue. Facilitated by a global

network of highly secretive tax havens and 'legitimised' by national and international tax rules, tax avoidance is big business.

As a minimum step towards ending all forms of global tax avoidance, clamping down on tax havens and preventing corporate tax abuse could raise more than \$349bn each year.¹⁹ However, preventing illegal tax evasion, strengthening tax systems in the Global South and adopting more progressive taxation policies in rich countries could raise billions more dollars of government revenue each year.

Strengthening tax systems in countries around the world remains the most pragmatic way for nations to share their financial resources more equitably and protect the poor and vulnerable. As the spotlight increasingly falls on tax avoidance and evasion, concerned citizens in all countries must staunchly advocate for international tax justice.

5. Increase international aid—\$297.5bn

Official Development Assistance (ODA) is the main way in which the international community currently finances the global sharing economy. But foreign aid is severely compromised by the self-interest of donor countries and dwarfed by the net flow of money from developing countries to rich industrialised nations.

Although the international aid system is in need of major reform, increasing ODA to 1% of gross national income (GNI) in the short term could raise an additional \$297.5bn per year—a sum much more in line with the urgent needs of developing countries.²⁰

In the longer term, ending poverty will require helping low-income countries to develop their tax and social protection systems, alongside extensive restructuring of the world economy in order to share wealth and power more equally between and within countries.

6. End support for agribusiness—\$187bn

Agricultural subsidies are a foremost example of how governments support an environmentally destructive and socially unjust model of agriculture and trade. Redirecting these perverse subsidies is an urgent priority if the world is serious about addressing the global food crisis, reducing hunger and protecting the environment.

Eliminating inappropriate and wasteful subsidies that are geared to supporting wealthy farmers and powerful agri-corporations could raise \$187bn each year—money that could instead be used to tackle poverty and increase food security in the Global South.²¹

Remaining subsidies should be re-oriented to support small-scale producers and 'agro-ecological' farming practices, in accordance with the principles of food sovereignty. Much wider reforms to the world's food systems are also imperative to address the root causes of the agricultural crisis, including fairer trade rules and other measures that assist the livelihoods of small farmers.

7. Harness IMF resources—\$115.5bn

The powerful influence exerted by the International Monetary Fund (IMF) over economic policy decisions made across the world has earned it a deeply controversial reputation. Many civil society groups and millions of citizens throughout the Global South see the IMF and its market-driven policies as a threat to social and economic justice.

Nonetheless, the Fund has the ability to raise and redistribute vast quantities of additional finance for poverty eradication and climate finance purposes. Expanding the IMF's Special Drawing Rights facility (SDRs) could raise \$100bn annually, and progressively selling off the IMF's substantial gold reserves could raise an additional \$15.5bn over a period of 10 years.²²

Redistributing the IMF's assets could help restore its flagging legitimacy, compensate for its decades of international financial mismanagement, and prepare the way for more extensive reforms to the global economic architecture in the longer term.

8. Tax dirty fuels—\$108bn

Campaigners have long argued that the price of using fossil fuels does not accurately reflect the actual cost of its environmental, social or economic impacts. The artificially low price of burning oil, gas and coal has also encouraged overreliance on them, exacerbated climate change and prevented the development of alternative forms of energy.

Taxing the carbon emissions from fossil fuels could raise \$108bn each year in additional government revenues.²³ The tax would also provide an incentive to use fossil fuels more efficiently, help encourage the transition towards low-carbon energy technology, and raise significant funding for international climate finance.

Various forms of carbon taxes have already been introduced in many countries, and many leading scientists, environmental groups and economists support them as a favourable alternative to highly complex and controversial carbon trading schemes.

9. Cancel unjust debt—\$81bn

Developing countries are indebted to the tune of over \$4tn and spend more than \$1.4bn every day repaying these debts—400% more than they receive in aid. These funds should instead be spent on social welfare and public services that many of these countries urgently need.

Cancelling illegitimate 'dictator debts' alone—currently estimated at \$735bn—could free up \$81bn a year for public spending in developing countries.²⁴

The unconditional cancellation of all unjust and unpayable developing country debts is essential to achieve a more equitable distribution of the world's financial resources. In the longer term, debt cancellation can also contribute towards economic growth in the poorest countries, help reduce their dependence on aid, and enable people rather than international financial institutions to hold their governments to account.

10. Protect import tariffs—\$63.4bn

Income from taxes placed on imported goods is an important source of government revenue for developing countries. However, they are increasingly being forced to reduce these import tariffs as a condition of free trade agreements (FTAs) or in return for financial assistance.

If the current round of world trade negotiations is concluded, poor countries could lose \$63.4bn from reductions in import tariffs—more than four times what they are estimated to gain from increased trade.²⁵ In addition, many FTAs currently being negotiated between rich and poor nations will further reduce tariff revenues for governments throughout the Global South.

Rich nations and global institutions must stop forcing poor countries to adhere to unjust trade rules. Instead, governments must be granted the policy space they need to regulate national economies in accordance with their own development objectives.

Notes

1. For example, see: Jeremy Rifkin, *The Empathic Civilization*, Cambridge: Polity Press, 2009; Michael Tomasello, *Why We Cooperate*, Cambridge: MIT Press, 2009; Frans De Waal, *The Age of Empathy*, New York: Harmony Books, 2009; ABC Science, 'Humans May Be Hardwired to Share', 28th August 2008.
2. See the main report section on 'Increasing international aid' for more information.
3. OECD, *Doing Better for Families*, 27th April 2011.
4. See latest data from the Food and Agricultural Organization of the United Nations (FAO), and the World Bank.
5. Global Humanitarian Forum, *The Anatomy of a Silent Crisis, Human Impact Report: Climate Change*, Geneva: May 2009.
6. Figures based on World Health Organization, *Disease and injury regional estimates, Cause-specific mortality: regional estimates for 2008*, <www.who.int> Note: Only communicable, maternal, perinatal, and nutritional diseases have been considered for this analysis, referred to as 'Group I' causes by the WHO. Ninety six percent of all deaths from these causes occur in low- and middle-income countries and are considered largely preventable.
7. Most notably, international climate change negotiations under the UNFCCC framework led to the launch of the Green Climate Fund in 2011, although there is still uncertainty over how governments will adequately finance its operation by 2020.
8. International Labour Office, 'Can low-income countries afford basic social security?', *Social Security Policy Briefings*, Paper 3, Geneva, 2008.
9. Oxfam, 'Bank bailout could end poverty for 50 years—Oxfam tells G20', Press release, 1st April 2009.
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11. UN Millennium Project, *Investing in Development: A Practical Plan to Achieve the Millennium Development goals*, New York: 2005, Table 7, p. 57.
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13. A report by Bill Gates to G20 leaders, *Innovation With Impact: Financing 21st Century Development*, Executive Summary, Cannes Summit, November 2011, p. 3.
14. UNFCCC, *The Cancun Agreements, Financial, technology and capacity-building support, New long-term funding arrangements*, <cancun.unfccc.int>
15. International Labour Office, 'Can low-income countries afford basic social security?', op cit.
16. Adam Parsons, *When Will Ordinary People Rise Up?*, *Share The World's Resources*, June 2012.
17. Calculated using a low-rate FTT of 0.01-0.05%, applied differentially to a wide range of transactions.
18. Calculation based on the elimination of producer subsidies (\$100bn) + biofuel subsidies (\$22bn) + the progressive elimination of consumer subsidies by 2020 (\$409bn).
19. Clamping down on the use of tax havens by high-net-worth individuals could raise \$189bn, and preventing multinational corporations from using trade mispricing and false invoicing to artificially boost their profits could secure an additional \$160bn annually for developing countries.
20. Calculations based on OECD Official Development Aid figures for 2011 when donor countries gave a total of \$133.5bn in ODA, equal to 0.31% of combined GNI of DAC member countries. Increasing ODA to 1.0% of GNI (\$430.6bn) would raise an additional \$297.5bn.
21. Eliminating inappropriate and wasteful agricultural subsidies is likely to require steep cuts, in the range of 50% to the current \$374bn spent annually across OECD countries
22. The market value of the IMF's gold (less its historic cost) amounts to \$155.2bn. Note that it could also be possible to raise an additional one-off \$165bn by transferring existing SDRs.
23. A tax of \$25/ton of CO2 emissions applied across all OECD countries could raise \$301bn each year. Making only a quarter of this sum available could raise almost \$75bn each year. A similar tax on emissions from the shipping and aviation industries could raise \$23bn, and a further \$10bn annually could be raised from a ticket levy on international flights (although this is not strictly a carbon tax).
24. In 2010, developing countries paid \$180bn servicing \$1,583bn of debt, which represented 11% of the total value of their debt stock. We therefore estimate that the annual combined savings for developing country governments is 11% of the total amount of debt cancelled. If \$735bn of debt was cancelled, 11% of this amount is \$81bn in potential savings.
25. Note that this figure only relates to industrial goods under the NAMA (Non-Agricultural Market Access) agreement being negotiated in the WTO Doha Round.

Part 1: The sharing economy

The sharing economy is increasingly being eroded by policies that widen inequalities and leave families in a state of poverty or destitution. As a result, humanity is now facing a global emergency in which millions of people die needlessly every year and many more suffer from life-threatening deprivation or avoidable hardship. Dealing with the structural causes of this emergency will require wholesale reform of the world economy, but in the meantime we already have the institutions and mechanisms in place to safeguard human lives across the world. This report shows how governments could mobilise over \$2.8 trillion each year in order to reverse policies of economic austerity, prevent poverty-related deaths and mitigate the human impacts of climate change as a foremost global priority. But it will only happen with a huge groundswell of public pressure that forces the international community to scale up and strengthen systems of sharing within and between nations.

Sharing is a natural human behaviour that families and communities have practiced since the dawn of civilisation, and it still informs and influences many spheres of modern life – from co-operative enterprises and ‘land share’ schemes to open software development and social networking.

Yet one of the most important expressions of sharing today in the field of politics and economics often goes unacknowledged. Arguably, modern systems of social welfare are the most advanced forms of sharing ever established, and the vast majority of people in developed countries are instrumental to their proper functioning.¹

Systems of welfare are essentially complex ‘sharing economies’ that exist in a variety of forms throughout the world.² The principle of sharing underpins how they work by ensuring that members of society take collective responsibility for securing basic human needs and rights for all citizens. Through the process of progressive taxation and redistribution, we share a portion of the nation’s financial resources (personal income and assets, as well as company profits) for the benefit of society as a whole. In most developed countries, governments redistribute a large proportion of tax revenue to ensure that the wider population can access healthcare, education and other important forms of social security.

Social welfare systems in developed countries are far from perfect and not always efficiently administered, but they represent a natural evolution of the human propensity to share that builds on practices that have been familiar to people for millennia. They are also an expression of social justice, solidarity and equitable wealth distribution that can reduce inequalities and strengthen social cohesion within countries.³ Moreover, systems of welfare are widely supported by many millions of people who have long recognised the role that an effective sharing economy can play in creating a fairer, more just and healthier society.

Scaling up sharing between countries

However, the process of establishing and strengthening the sharing economy is still in its infancy in some parts of the world. Many low-income countries do not have the resources they need to build effective systems for redistributing wealth and income through taxation and the provision of public services. In many cases, developing countries also suffer additional social, environmental and financial problems that further hinder their economic development.

These realities point to the urgent need for scaling up sharing *between* countries as well as within them. In the globalised modern world, each nation’s prosperity ultimately depends on its relationship with other nations. Rich countries therefore have a responsibility to do much more to assist poorer nations to strengthen their domestic systems of redistributive taxation and social protection, so that governments can at least meet the basic needs of their citizens and facilitate economic development.

Unlike the practice of sharing within countries, there is no equivalent system of taxation or public spending at the international level that can provide the level of support that developing countries urgently need.⁴ The main exception is the international aid provided by donor countries each year, known as Official Development Assistance (ODA).⁵

As explained further in the section of this report on ODA, aid donations today are grossly insufficient, ineffective and often problematic for recipient countries. After decades of international aid provision, almost two and a half billion people still live below \$2 a day – a figure that has hardly changed since the early 1980s.⁶ Even if the Millennium Development Goal of halving rates of extreme poverty is reached, a staggering 883 million people will still be living without adequate means for survival in 2015.⁷

Given the tremendous levels of wealth that exist alongside extreme poverty and destitution, it is high time that we extend the principles that underpin national systems of sharing to encompass the global community of nations. In other words, we need to establish an effective ‘global sharing economy’ that can help secure the basic needs and rights of all people across the world.⁸ In the longer term, this might involve establishing new global institutions and implementing forms of direct international taxation or other innovative mechanisms.⁹ As a first step, however, governments could immediately prevent the life-threatening deprivation that afflicts thousands of families every day by redistributing just a tiny portion of the world’s abundant financial resources through existing mechanisms and institutions.

Box 3:

The evolution of the sharing economy

Contrary to the common misconception that people are individualistic and selfish by nature, anthropologists have shown that gifting and sharing has long formed the basis of community relationships in societies across the world. A recent spate of scientific research has built on this evidence to demonstrate that as human beings we are naturally predisposed to cooperate and share in order to maximise our chances of survival and collective wellbeing. Without the act of sharing and reciprocity, there would be no social foundations upon which to build societies and economies.¹⁰

In light of the historical and scientific evidence, it is not surprising that the principles of sharing and equality have also been important components of many of the world’s religions, as well as many secular movements such as humanism. In broadly similar ways, Judaism, Islam, Christianity, Buddhism, Hinduism and numerous other faiths all expound the importance of sharing wealth and other resources fairly, as well as the need to protect the vulnerable and those who are less well off.

Sharing in the modern world

In recent years, the principle of sharing has re-asserted itself in the economic and social realm through the development of the internet, which has enabled people to collaborate in altogether new ways. From knowledge sharing websites like Wikipedia to social media platforms that facilitate human relationships beyond national borders, people are sharing their time, skills and experiences by creating a worldwide virtual sharing community. Although the internet has become a locus for intensive commercial activity in recent years, programmers across the world voluntarily create innovative ‘open source’ programs that are widely used and freely available to all.

In parallel to this expansion of online networks, collaborative consumption has emerged as a new economic model that allows people to share various goods and services with their peers, ranging from cars and food to office space and expertise. As the proponents of this latest manifestation of the sharing economy maintain, sharing works to save money, build community and safeguard the poor, while

reducing levels of personal consumption and carbon emissions in the process.¹¹ The growing infrastructure and community of the sharing economy includes many innovations and practices such as peer2peer services, crowd funding, crowdsourcing and co-production.

Co-operative enterprises have also long pioneered the sharing economy by sharing the proceeds of business activity with employees, and allowing people to come together to do things that they can't do alone. A growing body of evidence demonstrates that sharing has many social and environmental benefits, while also improving economic efficiency. Research suggests that most people are keen to share their time and resources with their local community, and that sharing makes us happy and increases our self-esteem.¹²

The principle of sharing also underpins the renewed focus on the 'commons' – the concept that certain resources of both society and nature, including natural resources, cultural traditions and knowledge, should be held 'in common' and shared by people and communities.¹³ The late economist Elinor Ostrom was awarded the Nobel Prize in economics for her groundbreaking work on the management of land and other common-pool resources by local communities without intervention from the state or private sector.¹⁴

Social welfare as sharing

Such examples outlined above illustrate the growing interest among ordinary citizens, entrepreneurs, economists and policymakers in the many different aspects of the sharing economy. However, one of the most important examples of sharing economies in the modern world often goes unrecognised: publicly provided welfare systems. Although various forms of social protection can be traced at least as far back as ancient Greece, modern policies of publicly funded welfare were first implemented by Chancellor Bismarck in Germany during the 1880s. Some of the most widely known modern welfare policies include those introduced in the United States during the Great Depression, as well as the National Health Service and other forms of social security implemented in the United Kingdom following the Second World War. In the 1970s, numerous European states, including Sweden, Germany and Austria, also expanded state welfare provision significantly.

Today, sharing economies that make welfare services universally accessible are commonplace, especially in high- and middle-income countries. These national systems of sharing generally evolved alongside the recognition that everyone has certain inalienable human rights – including social and economic rights. These rights were first enshrined in international law in 1948 when nations subscribed to the Universal Declaration of Human Rights, and they have been reinforced in a number of other international covenants since.¹⁵

Prioritising the global emergency

Rather than reinforcing and scaling up the sharing economy, for decades governments have pursued policies that undermine systems of social protection and exacerbate poverty and inequality. As a consequence, humanity is now facing what can only be described as a global emergency. Every day that we continue with business as usual, over 40,000 people needlessly lose their lives and many millions more are deprived of the basic essentials of food, water, adequate shelter and healthcare. Austerity measures are widening existing inequalities and causing hardship for millions of people across the world. At the same time, ecological turmoil is triggering natural disasters that are already destroying communities and escalating poverty, displacement and deprivation. It is estimated that climate change alone causes 300,000 fatalities every year, and devastates the lives of many millions more [see part 2].

Although the underlying causes of the many urgent problems facing humanity are complex and beyond the scope of this current report, it is increasingly clear that resolving the world's interrelated crises will necessitate structural reforms on a scale never before attempted by the international community – a task that is widely considered the defining challenge of our times. But we cannot wait for these transformative changes to take place while millions of people are losing their lives and suffering from avoidable poverty-related causes.

Put simply, this global emergency is exacerbated by policies that undermine the sharing economy and fail to redistribute the world's vast financial resources in a way that benefits people and the planet. That being the case, everything needed to mitigate the worst impacts of the emergency already exists. The international community has both the money and the expertise to take a bold step towards saving lives and ending extreme deprivation – and, as this report makes clear, doing so is eminently affordable.

Mobilising the world's financial resources

The maldistribution of wealth today highlights how distorted global priorities are and how absurdly the world's financial resources are currently managed. For example, the trillions of dollars raised to bail out banks in 2008 would be enough to end global extreme poverty for 50 years.¹⁶ Bringing everyone above the global absolute poverty line (\$1.25 a day) would require only 0.2% of global income.¹⁷ And plugging the funding shortfall of the World Food Programme would require only \$141 million [see box 4].¹⁸ Meanwhile, multinational corporations are reporting record profits and executive remuneration and bonuses are at an all-time high, even despite the global financial crisis.¹⁹ In 2011, the combined wealth of the world's high-net-worth-individuals – the richest 0.002% of the world population – totalled \$42 trillion.²⁰ In the same year, governments spent \$1.73 trillion on their militaries, \$510 billion supporting the polluting fossil fuel industry, and a further \$374 billion supporting wealthy farmers and large agribusinesses [see part 3].

This report demonstrates in practical terms how governments could harness more than enough money to strengthen sharing economies across the world in order to reverse policies of economic austerity, prevent life-threatening deprivation and mitigate the human impacts of climate change. Any one of the policy options highlighted in part 3 can mobilise tens if not hundreds of billions of dollars, and the combined recommendations in this report could enable the international community to mobilise **over \$2.8 trillion** every year in order to ensure that everyone has access to the essentials of life. These figures are only broad estimates, but they demonstrate the potential for governments to collect and redistribute huge quantities of additional public finance for critical human needs – often money that they have led the public to believe does not exist or cannot be found.²¹

Box 4:

A small price to pay

- Lifting 1.4bn people above the \$1.25 a day extreme poverty line: \$173bn per year.
- Central Emergency Response Fund (CERF) shortfall for 2011: \$45m.
- Financing the Global Climate Fund: \$100bn per year.
- Money owed by UN member states to maintain UN Peacekeeping Operations: \$1.36bn.
- World Food Program shortfall for 2011: \$141m.
- Providing vaccines for all infants in poor countries: \$3bn.
- Achieving universal primary education in low-income countries: \$24bn per year.
- Responding to climate change adaptation needs in South Asia and Africa: \$34bn per year.
- Reaching the Millennium Development Goals (MDGs) in Africa: \$72bn per year.
- The total cost of meeting the MDG financing gap for every low-income country: \$143bn in 2010.
- Providing basic social protection to all people living in extreme poverty: \$1.26tn (2% of global GDP).

The structures are already in place

The institutional structures, mechanisms and expertise needed to utilise these additional financial resources to protect the vulnerable and mitigate climate change have long been in place. For example, there are already numerous international agencies working ceaselessly to provide disaster relief and prevent life-threatening deprivation in developing countries. These include humanitarian agencies like the Red Cross, a range of agencies working under the umbrella of the United Nations including the World Food Program and the World Health Organisation, as well as numerous non-governmental organisations (NGOs) working within the international development sector that are supported by governments, the private sector and the public.

Together, these institutions have the experience and expertise to prevent people dying needlessly from extreme poverty through a variety of interventions such as critical medical care, the emergency provision of food and shelter, and the securing of access to clean water for drinking and sanitation. Despite their combined expertise and capability, however, they lack the vital financial resources needed to meet the huge scale of global demand for basic humanitarian assistance.

In relation to environmental issues, governments have already established an array of funds and mechanisms to facilitate climate change adaptation and mitigation programs in developing countries – measures that could significantly reduce the human impact of global warming. Most notably, the international community launched the Green Climate Fund in 2011, although there is still uncertainty over how governments will adequately finance its operation by 2020 [see part 2]. Alongside the many national and global strategies for transitioning to a low carbon economy, these ‘climate finance’ solutions are largely independent of international agreements.

In terms of social protection, many countries already have various systems of welfare in place to provide essential public services to their citizens, and it would not be impossible to establish basic social protection programmes in countries where they are currently lacking. According to calculations by the International Labour Organisation, it could be

possible to ensure that a basic level of social protection is available to the world's poor for as little as 2% of global GDP.²²

The economic benefits of sharing

The policies set out in this report highlight many ways in which governments can mobilise hundreds of billions of dollars without creating more national debts. Using this money to reinforce the global sharing economy by preventing life-threatening deprivation in developing countries could save the lives of around 15 million people every year and enable many millions more to contribute to the social, economic, political and cultural life of their nation.²³ This makes sound economic sense at a time when economies across the world are contracting and unemployment is rising. In an interdependent world where trade and financial relationships span the globe, this massive investment in the sharing economy would stimulate demand, kick-start growth, create employment opportunities and substantially increase government revenues.

Reversing austerity measures across Europe and North America would also have a significant impact on economies by reducing unemployment and increasing the health, wellbeing and disposable income of citizens in these economically advanced regions. Similarly, investing heavily in renewable energy and green infrastructure projects as part of a 'green new deal' on a national and global scale could create even more jobs, pave the way to a low carbon economy and significantly reduce greenhouse gas emissions.²⁴

Together these measures would help stimulate economic activity and increase government income, helping nations to plug the hole in public finances and reverse the big cuts in government spending. These 'stimulus policies' are widely regarded as being more effective than the programs of austerity meted out by many indebted governments, especially in times of recession or exceptionally high deficits. Although a profound transformation of the entire global economic structure is necessary to resolve the ongoing financial crisis, in the meantime there is no excuse for undermining the sharing economy through government cutbacks in essential services.

Overcoming the barriers to progress

If we have the money, the institutions and the technical knowledge needed to ameliorate the worst impacts of the global problems highlighted in this report – and it makes sound economic sense to do so – why aren't we using our financial resources more effectively? Why are we failing to share our financial resources in the only ways that really matter – saving lives, protecting the vulnerable and transitioning to a low carbon economy? Put another way, why do we continue to neglect and even undermine the sharing economy on both national and international levels?

These questions are rarely put to policymakers, and there is a stark lack of public debate about the extent of the global emergency we face and how easily life-threatening deprivation could be prevented if we prioritised doing so. When pressed on these issues, elected officials often claim that their governments have simply run out of money to safeguard even their own citizens, let alone help those living abroad. Of course, such rhetoric is not convincing for half the world's population that lives in poverty and learns about the many trillions of dollars handed directly to banks since the financial crisis, while witnessing the lifestyles of the 'other half' on a local television set.

Although the underlying reasons for the distorted priorities of governments are manifold, they largely stem from market-oriented values that have dominated policymaking for many decades, coupled with the increasing power and influence of the corporate sector [see box 5]. Overcoming these entrenched barriers to progress will require people to

strengthen their bonds of solidarity and make a united demand for governments to put basic human needs before all other concerns.

The long-held aspiration of the international community to secure human rights for all, as enshrined in the Universal Declaration of Human Rights, can only be achieved if governments make a commitment to share resources more equitably between and within nations. Many European governments understood this after the Second World War when they brought in a comprehensive package of social welfare despite levels of national debt that surpassed those of today. President Roosevelt introduced similar commitments in the US during the country's most severe economic depression as part of the New Deal series of economic programs between 1933 and 1936. In 1948, the US went on to kick-start a massive transfer of financial resources to a number of European countries as part of the Marshall Plan, designed to aid reconstruction and economic recovery in those countries devastated by war.

Instead of further eroding these landmark commitments to sharing financial resources in ways that benefit the wider community both at home and abroad, it is time we scaled up the sharing economy at every level of society. In response to the claim that governments cannot afford to do so, the proposals set out in this report send a clear message to policymakers: we have more than enough money available, all that lacks is the willingness to share it.

Box 5:

Why don't governments support the sharing economy?

Comprehensive solutions that address the structural causes of poverty and inequality are often dismissed by policymakers in the Global North as 'unrealistic' given the political and economic realities they face, despite being passionately advocated by civil society organisations around the world. Incremental improvements and attempts to 'chip away' at urgent global issues like climate change, unfair trade and Third World debt are the mainstay of international policy discussions, even though progress remains painfully slow. A central barrier to more thorough reform of the imbalanced global financial and trade system is the pro-market or 'neoliberal' ideology that has firmly established itself as best practice amongst mainstream economists and policymakers since the early 1980s.

The consequent unwillingness of governments to regulate the power and influence of big business has become entrenched over the period of economic globalisation – a time in which transnational corporations have extended their reach beyond national jurisdictions while amassing greater financial strength than that of many sovereign states. This is most notable in the United States where billions are spent each year by corporate lobbyists to influence political outcomes, a phenomenon that is replicated at the European Union and during negotiations at the World Trade Organisation. Over several decades, and particularly with the use of increasingly sophisticated methods of advertising, public policy under the influence of corporations has progressively fashioned a world economy that is structurally dependent upon unsustainable levels of production and consumption for its continued success.

A key dynamic of market-driven politics is to transfer control of the economy from the public to the private sector. Just as common land was progressively 'enclosed' in

the Middle Ages, other shared resources such as seeds, information and technology are increasingly privatised and controlled by multinational corporations. International rules are put in place (enforced by the World Trade Organisation) to help maintain this market-based system that encourages private ownership over public resources in order to profit from their use and exploitation. In a similar way, it is now commonplace for healthcare, education and water to be provided by private companies, making such basic services and utilities inaccessible to those who cannot afford them. Staple foods, traditionally grown for personal and local consumption, are now highly commoditised and often priced out of reach for those without sufficient purchasing power, leading to rising levels of hunger, food price crises and civil unrest in many poorer countries.

Multilateral institutions like the World Bank and International Monetary Fund continue to promote policies that increase global inequality, even though the myth that economic growth will eventually benefit all has long been shattered. As we know, endless growth is unsustainable on a planet with finite resources. This impasse is further compounded by ecological degradation and climate change – the side-effects of economic ‘progress’ that disproportionately affect the poorest people who are least to blame for causing these multiple crises.

The purely market-based approach to development has consistently failed to secure basic needs for the majority of the world’s poor. Alternative mechanisms must ensure that the poorest people are guaranteed immediate access to the essentials of life as a basic human right. Given the interdependency of nations and the uneven distribution of the world’s natural resources and economic power, this presents a huge challenge for the international community to develop more inclusive systems of global governance guided by the principle of sharing.

This box is extracted from the publication *International Sharing: Envisioning a New Economy*, published by Share The World’s Resources, 29th September 2011.

A first step toward world rehabilitation

The policies presented in this report address only one aspect of a much bigger and more complex picture. It is a matter of both justice and necessity that the world’s vast financial resources are shared more equitably among countries and within societies. But of course money alone cannot address the underlying causes of poverty, inequality and climate change. At root, the real causes of these problems are structural in nature, which means they are determined by the ideologies, policies, institutions and practices that govern economies on both national and global levels. For too long, governments have pursued an economic model that overemphasises the private sector and free markets, thereby undermining the sharing economy by placing profit and growth before the welfare of all people and the environment. As campaigners across the world recognise, without addressing these structural causes the international community will never be able to create a truly sustainable and equitable world.

In this process of world rehabilitation, almost every aspect of society will need to be restructured – from the way we extract, produce, distribute and consume resources, to the influence that multinational corporations wield over society and policymaking. In an era of globalisation, transformation needs to occur on a global scale that will require a level of international cooperation that is increasingly lacking today. These urgent reforms cannot occur until governments move beyond the self-interest and aggressive competition that characterises domestic and foreign policy. The ultimate – and urgent – goal is a just world that is united and at peace, where policymaking at all levels of society is an inclusive and democratic process, and where the world’s resources are managed cooperatively in an environmentally sustainable manner that guarantees equal access to present and future generations.

Sharing the world's vast financial resources through the measures outlined in this report is only the very first step in this process of global reform. These ameliorative measures require governments to make relatively minor policy changes in order to better utilise what they already have at their disposal: abundant financial resources, capacity and expertise. Nonetheless, if governments use the money effectively, these simple reforms could yield major gains for humanity by significantly reducing needless poverty-related deaths and enabling poorer countries to mitigate and adapt to climate change. Achieving these goals could mark a tremendous leap forward for the international community and pave the way for more substantial reforms that must urgently follow.

The responsibility for change rests with us

However, even implementing the modest proposals detailed in this report will require massive public support if they are ever to become a reality. Decades of failed global conferences on issues as diverse as climate change, poverty reduction and international trade starkly illustrate the sheer lack of cooperation and goodwill that exists between nations today. The main reason for the failure of these high-level talks and summits is now widely recognised: policymaking has long been captured by powerful corporations and business lobby groups that have the ability to maintain their vested interests at all costs. 'Business as usual' is the anthem of this lobby, and their influence over governmental decision-making – including negotiations at the United Nations – has now reached an apex.²⁵

As humanity moves ever closer to social, economic and environmental tipping points, it is clear that we can no longer rely on governments alone to create the future we want. The hope for a better world rests with the participation of the global public in a call for reform that extends beyond national borders. As the widespread mobilisation of people power in 2011 demonstrated, only a united and informed public opinion is stronger than the private interests that obstruct progressive change from taking place. The responsibility to take a stand falls squarely on the shoulders of ordinary people, not just the usual campaigners and NGOs. It is imperative that millions more people recognise what is at stake and take the lead as proponents for change – the wellbeing of planet earth and future generations largely depends on this shift in global consciousness.²⁶

Safeguarding human lives across the world by reversing policies of economic austerity, ending life-threatening deprivation and mitigating the human impacts of climate change must quickly become a prevailing goal for the international community. This report calls on all citizens to make this priority their own – from ordinary people who have never campaigned before, to experienced activists and the new wave of protestors in the Occupy, Indignado and student movements. And of course, it calls on world leaders, policymakers and the business community to put human needs and environmental sustainability before the relentless drive for profit and economic growth.

Just as we demonstrate sharing within our homes and communities, this same principle should also guide public policy at the local, national and international levels where its application could have profound implications for how we organise economies. Sharing the world's resources can save lives, increase bonds of solidarity within and between nations, reduce inequalities and help foster peace and security. The responsibility for change rests with us – ordinary, engaged citizens – to forge a united and informed world public opinion that upholds and strengthens the sharing economy in all its forms.

Notes

1. Note on definitions: In this report, the terms 'developed/developing country', 'Global South/Global North' and 'rich/poor countries' are used interchangeably for variation, although the authors are mindful of the problems and assumptions that are wrapped up in using these expressions. In particular, the term 'development' is distasteful to many when it is equated with economic growth or defined narrowly as modernisation, as explained in detail by such authors as Wolfgang Sachs, Arturo Escobar and Gustavo Esteva. However, for the purpose of this report these terms are used in the broadest sense to indicate the differences between the economically-advanced societies of Europe and North America among others, and the less economically and technologically-advanced societies of Africa, Asia and Latin America among others.
2. The sharing economy is a broad term used in this report that encompasses the many systems of sharing and redistribution that exist locally, nationally and globally – whether facilitated by individuals, states or other institutions. It is concerned with the social, economic, environmental, political and spiritual benefits of sharing both material and non-material resources – everything from time and knowledge to money and natural resources.
3. Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Equality is Better for Everyone*, Penguin, 2010.
4. Claire Melamed, *Global Redistribution as a Solution to Poverty*, Institute of Development Studies, IDS In Focus Policy Briefing, Issue 11, October 2009.
5. Note: International trade, foreign direct investment and even IMF financing can all be considered further examples of international redistribution as they involve sizable transfers of financial resources between countries. However, at present only through international aid can rich country governments directly redistribute public money to assist governments and people in poorer countries.
6. Adam Parsons, 'Should We Celebrate a Decline in Global Poverty?', *Share The World's Resources*, 16th March 2012.
7. Thomas Pogge, *The First UN Millennium Development Goal: A Cause for Celebration?*, Presented at the University of Oslo, 11th September 2003, <www.etikk.no/globaljustice>
8. In this report, the global sharing economy refers specifically to systems of sharing and redistribution that are international or global in nature – whether facilitated directly by people, organisations and governments or by global institutions like the United Nations. It refers to the many methods by which the international community can share their financial, technical, natural and other resources for the common good of all people. The global sharing economy is still in its infancy, but is nonetheless an important expression of the growing sense of solidarity and unity between people and nations.
9. For example, see: Branko Milanovic, *Ethical case and economic feasibility of global transfers*, World Bank, August 2007.
10. For more background and information, see for example: Charles Eisenstein, *Sacred Economics: Money, Gift, and Society in the Age of Transition*, Evolver Editions, 2011; Jeremy Rifkin, *The Empathic Civilization*, Cambridge: Polity Press, 2009; Michael Tomasello, *Why We Cooperate*, Cambridge: MIT Press, 2009; Frans De Waal, *The Age of Empathy*, New York: Harmony Books, 2009.
11. Latitude and Shareable Magazine, *The New Sharing Economy*, December 2010.
12. Rachel Griffiths, *The Great Sharing Economy, Co-operatives UK*, 2011.
13. For an introduction to the concept of the 'commons' and the 'global commons' see: <www.globalcommonstrust.org>; <www.schoolofcommoning.com>; <www.onthecommons.org>
14. Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge University Press, 1990.
15. In 1966, the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR) were adopted by the United Nations. Numerous other treaties were subsequently offered at the international level, generally known as human rights instruments.
16. Oxfam, 'Bank bailout could end poverty for 50 years – Oxfam tells G20', Press release, 1st April 2009.
17. Kate Raworth, *A Safe and Just Space for Humanity: Can we live within the doughnut?*, Oxfam, 13th February 2012.
18. Maha Mussadaq, 'World Food Programme: 2011-2012 operation facing a shortfall of \$9.3 million', *International Herald Tribune*, 24th January 2011.
19. Henry Blodget, 'Corporate Profits Just Hit An All-Time High, Wages Just Hit An All-Time Low', *Business Insider*, 22nd June 2012.
20. Capgemini and RBC Wealth Management, *World Wealth Report 2012*, June 2012.
21. Note: these figures are broad estimates based on the most recent data available at the time of writing. See individual sections in part 3 for references and further details.
22. International Labour Organisation, *World Social Security Report 2010/11*, November 2010.
23. Refer to part 2 on the 'global emergency' for references.
24. For example, see: New Economics Foundation, *A Green New Deal, The first report of the Green New Deal Group*, 21 July 2008; United Nations Environment Programme, *Global Green New Deal, Policy Brief*, March 2009.
25. Paul de Clerck et al, *Reclaim the UN from Corporate Capture*, Friends of the Earth International, June 2012.
26. Adam Parsons, *When Will Ordinary People Rise Up?*, *Share The World's Resources*, June 2012.

Part 2: The global emergency

Humanity is in the grip of a global emergency. Amidst the many crises we face – including the food, environmental and financial crises that have erupted into a global systemic crisis – hundreds of millions of people across the world are facing extreme deprivation and dying needlessly from a lack of access to the essentials, whether as a consequence of extreme poverty, climate change or natural disasters. Even in rich countries, policies of economic austerity are inflicting unnecessary hardship on millions of families, many of whom now struggle to afford basic food or healthcare. Sharing the world’s vast financial resources will not address the root causes of this escalating global emergency, but it is a critical first step that could save the lives of more than 40,000 people every day and prevent the needless suffering of countless more.

A key principle that underpins the sharing economy is progressive redistribution, which governments facilitate in numerous ways including through taxes on wealth, income, inheritance and corporate profits, and even by setting minimum and maximum wage levels.

Without redistributing a small proportion of the financial wealth that people and businesses own and create, it would be impossible to fuel the sharing economy and provide a host of important social protections – such as small financial allowances for those unable to earn sufficient income, or universal education and medical care.

For a period after the Second World War redistribution played an important role in policymaking, especially in those countries that were reinforcing the sharing economy by improving the welfare services available to their citizens. Since the 1980s, however, governments have been rolling back policies that shared the proceeds of growth more fairly across society in favour of promoting unregulated wealth creation by the few. Economic policy in most parts of the world still largely relies on the ‘trickle-down effect’ to raise standards of living, even though strong evidence demonstrates that relying on economic growth without redistribution is both economically and ecologically inefficient. For example, research by the New Economics Foundation suggested that economic growth benefits the richest 1% of the world’s population 120 times more than it benefits the poorest 10%, while levels of inequality in wealth, income and opportunities have rocketed across the world.¹ This perverse distribution works against the sharing economy and – just like policies of economic austerity – it neglects the needs of the most vulnerable in society.

In late 2011 the Occupy Movement vividly captured the extreme inequality that persists across Europe and North America in their slogan ‘We are the 99%’, which has since refocused public debate on this perennial issue. The evidence is indisputable: since the 1970s, the top 1% of earners have witnessed their incomes rise many times faster than the rest of society. For example, data from the Organisation for Economic Co-operation and Development (OECD) shows that income inequality has grown more rapidly in the UK than any other rich nation since the 1970s. This has led to the creation of the ‘0.1%’ super-rich who account for 5% of the country’s total income, a level of wealth hoarding not seen since the Second World War.² Similar trends apply to the accumulation of wealth and assets. In the US, for example, the richest 1% now control more than 40% of the country’s financial wealth, whereas the bottom 80% of the population own only 15% of all privately-held wealth.³

The starkest comparisons of all between the rich and poor are those that apply to global levels of inequality. When the world is considered as a whole, the top 1% of earners also comprises a large proportion of people living in developed countries – including many of the protestors that occupied Wall Street, St Paul’s in London and other city squares across Europe.⁴ In terms of assets, the top 1% of the world’s population owns 40% of the world’s wealth. In comparison, 40% of the world’s population – almost three billion people – share a mere 1% of the world’s combined wealth.⁵ At the current rate of change, it would take more than 800 years for the ‘bottom billion’ of the world’s population to achieve 10% of global income.⁶

A world of hunger, poverty and life-threatening deprivation

When nations neglect the sharing economy and fail to reduce inequalities, the poorest in society are always the ones who pay most dearly. Even in the richest and most powerful countries, governments are disregarding the basic needs and rights of a large proportion of citizens. The number of people living in poverty in even the most affluent countries is now reaching alarmingly high levels as unemployment hits record heights and social spending cuts amplify the effects of the economic crisis. Across OECD countries as a whole, poverty rates have been rising for a decade and took a sharp turn for the worse after the financial crisis of 2008.⁷ Analysts expect poverty to continue to rise as countries move deeper into recession and the impacts of austerity measures become more apparent, with nearly a quarter of Europeans who formerly had a decent standard of living now at risk of sliding into social exclusion.⁸

Box 6:

Poverty among the 'richest' countries

- In the United States, almost 50 million people – around 16% of the population – are officially living in poverty.
- Almost one in four children in the United States grows up in a poor household – the second highest rate in the developed world.
- Across OECD countries as a whole, the number of children living in poor households has been rising for a decade, reaching almost 13% today.
- Approximately 50 million Americans go without healthcare insurance.
- The number of Americans now seeking emergency food assistance through food banks each year has almost doubled since 2006.
- In the UK – the fifth richest country in the world – one in five people are living in poverty.
- Across the European Union, over 115 million people – 23% of the entire EU population – officially live below the poverty line.

Nothing describes the dangerous shift away from the practice of sharing within societies more than the growing levels of hunger, poverty and needless deprivation in rich nations. But it doesn't have to be this way; governments can make different policy choices and preserve the state's important role in redistributing financial resources and providing universal social protection. Scandinavian countries are among those that maintain strong welfare systems and have some of the lowest rates of inequality and poverty in the world.⁹ For example, Iceland has a child poverty rate of less than 5% – the lowest in the world and almost five times less than the US – despite experiencing a severe financial crisis in 2008.¹⁰

It is inexcusable that in some of the world's wealthiest and most developed nations policymakers are undermining the sharing economy by failing to safeguard the poor and vulnerable. In light of the growth in poverty and inequality in many rich countries, reinforcing systems of public spending and social welfare should constitute a major priority for governments throughout the Global North.

However, there is no escaping the fact that the impact of extreme poverty and deprivation in the Global South is generally far more severe than in Northern countries. For instance, many will be familiar with the hunger crisis gripping the Sahel region of Africa, where around 18 million people currently face starvation and food insecurity.¹¹ Yet the true extent to which life-threatening deprivation devastates the lives of tens of thousands of families in poorer countries is often unknown among affluent society and commonly ignored by the mainstream media.

Altogether, 95% of people who live in developing countries survive on the equivalent of less than \$10 a day (comparable to what \$10 would buy in the United States) – an almost impossible task for someone living anywhere else in the world.¹² As a consequence of extreme poverty and inadequate welfare provision, around 15 million people die every year – equivalent to more than 40,000 people every single day.¹³ This loss of life occurs almost entirely in developing countries and far outweighs the fatalities from any other single event in history since the Second World War.¹⁴ Yet these deaths would be almost entirely preventable if people simply had access to sufficient food, clean water, adequate shelter and medical assistance – the basic essentials that most people in affluent countries have long taken for granted.

Box 7:

Poverty and deprivation in the developing world

- Just under a billion people in the world – one person in every seven – is officially classified as hungry, despite record global harvests reaped in recent years.
- According to the World Bank's latest poverty data, almost a quarter of the developing world (22%) cannot meet their basic needs for survival, while not far from half the population (43%) is trying to survive on less than \$2 a day.
- An estimated 7.6 million children (under 5) died of preventable causes in 2010 alone, equivalent to one child mortality every four seconds (the vast majority in sub-Saharan Africa and South Asia).
- A third of all child deaths occur because of under-nutrition.
- Two and a half billion people – one in three people – do not have access to adequate sanitation, and almost a billion people do not even have safe water to drink.
- Every year, about 100 million people are pushed into poverty as a result of paying for healthcare services.
- Around 1.4 billion people are expected to be living in urban slums by 2020.

Financial austerity: eroding the sharing economy

Today, many governments are eroding the very basis of the sharing economy by implementing programs of austerity that dramatically cut public spending on social welfare and essential services. These unjust economic policies are reversing the social protections that people have fought for over many generations – a process that is undermining human rights and threatening to unravel the basic fabric of society and community.

The current era of austerity has its roots in the financial crises of late 2008, soon after which governments across the world spent an estimated \$11.9 trillion of public money bailing out the banking industry – and they have since spent trillions more.¹⁵ Rather than placing the onus on the financial sector to repay the massive debts that accrued largely because of their high-risk lending, borrowing and speculative activities, policymakers are cutting spending on essential public services in a bid to save money and reduce government debt. These cuts have already been dramatic, but in many countries they have only just begun and are set to escalate further in the coming years. Unsurprisingly, the impact of austerity measures is likely to be particularly severe on poorer families as they target key social areas such as healthcare and public sector salaries, as well as financial assistance for students, the elderly and the unemployed.

As it becomes increasingly more difficult for people to meet their basic needs, governments across the European Union and beyond are facing widespread popular protests that look set to continue as long as policymakers put deficit reduction before human rights. But the practice of financial austerity is nothing new. Developing countries burdened with illegitimate and unjust debts have been reeling under the harsh impacts of austerity measures for many decades, and still maintain an unsustainably high debt burden of over \$4,076 billion [see section 9 in part 3].

A spate of reckless lending, an oil crisis and a series of unprecedented hikes in interest rates combined to push many developing countries into a debt crisis in the 1970s and 80s.¹⁶ When these countries found they were unable to repay the huge debts they had accrued, the International Monetary Fund (IMF) and World Bank stepped in to bail them out. In order to qualify for the loans, governments had to agree to enact Structural Adjustment Programs (SAPs) which forced them to dramatically cut public spending, privatise formerly state-run enterprises, and deregulate and liberalise their economies. The overriding intention was to prioritise debt repayments to the financial sector, heighten the role of free markets, and open up the economy to multinational corporate interests. In many ways, these extreme reforms parallel the IMF government bailout packages being imposed more recently across Europe.¹⁷

However, the impact of the austerity measures attached to SAPs in many low-income countries during the 1980s and 90s remains more severe than the experience of even the most debt-stricken European nations of today, which at least have broad-based systems of social welfare already in place. The introduction of SAPs in more than 150 developing countries decimated systems of social protection – that were often very weak to begin with – by further reducing spending on healthcare, education and other public services and social programmes. The result was a widespread and drastic reduction in living standards, a devastating impact on health outcomes, and a massive increase in extreme deprivation in some of the poorest regions of the world – which continues to thwart poverty reduction efforts and economic development in the Global South to this day.¹⁸

Wherever they have been administered, austerity measures have systematically undermined the sharing economy and disproportionately affected the poor and vulnerable. At the same time, policies of austerity have cut taxes for big businesses and the ultra-rich in the vain hope that the private sector might be able to generate economic growth and increase government revenues. Yet the experience of countries in both the Global North and South tells us that fiscal austerity does not work, even on its own terms. By prolonging economic recession and reducing government income, austerity has made it harder – not easier – to repay national debt. Instead of employing the tried and tested approach of increasing public spending in order to stimulate the economy, create jobs and increase government revenues, austerity measures are depressing economic activity, rolling back essential social protections and dismantling the sharing economy.¹⁹

Box 8:

The social impacts of financial austerity

- Out of 128 developing countries surveyed by the United Nations Children's Fund (UNICEF), more than 90 had introduced austerity measures that affected their social sectors in 2011 or were planning to do so in 2012.
- The cost of planned cuts to public spending in the UK between 2010 and 2015 (focused on schools, training programs and family social services) is: £95bn (\$148bn).
- Estimates for government budgets cuts in 2012 are: €27bn in Spain, €4.2bn in Italy, and €2.2bn in Ireland.
- In the UK, one of the richest countries in the world, an additional 500,000 children may be pushed below the poverty line by 2014 as a consequence of economic austerity, while a million children are already undernourished and facing food insecurity.
- Public sector pay in Greece has been slashed by as much as 40%.
- The negative effects of austerity are concentrated among the young, with youth unemployment over 21% in the UK, and at 44% and 46% in Greece and Spain respectively.
- Research shows that austerity measures lower personal incomes and increase long-term unemployment. Since 2008, unemployment levels have increased by 50% across Europe as a whole.

Mitigating the human impacts of climate change

Sharing the world's financial resources is not only necessary to prevent deprivation and poverty, but it can also help to significantly reduce the increasingly severe impact of climate change on people and communities around the world. Contrary to popular opinion, climate-related disasters and changing weather patterns are already exacting widespread devastation today. Global warming is also exacerbating the vast majority of the world's natural disasters including floods and droughts, most of which occur in developing countries where people often lack the resources needed to protect themselves against climate shocks. According to the most comprehensive study to date on the human impacts of climate change, 300 million people are currently affected by global warming and 300,000 people lose their lives every year as a consequence – making it one of the greatest humanitarian challenges the world faces.²⁰

Despite intensive international climate change discussions that have taken place as part of the United Nations Framework Convention on Climate Change (UNFCCC), governments have failed abysmally to negotiate effective reductions in global CO₂ emissions. Pledges to reduce carbon emissions stem back to the first Rio 'Earth Summit' in 1992, but global emissions have increased by 50% since then, reaching record highs in 2011 and putting hopes of holding global warming at safe levels all but out of reach.²¹

On the current trajectory, we are likely to witness global average temperatures increase by three to six degrees Celsius by the end of the century, far exceeding the original targets set by the UNFCCC. The impacts of a temperature rise on this scale will be severe, exacerbating today's extreme weather conditions and causing rising sea levels and

diminishing crop yields, as well as potentially doubling premature deaths from pollution exposure to 3.6 million a year.²² Nearly a tenth of the world's population already live in coastal areas that are at risk of flooding, and by 2050 there could be up to 200 million domestic or international migrants as a result of climate change.²³

Of course, global warming is only one aspect of a much wider ecological crisis that threatens life on earth. Studies have calculated that humanity as a whole currently consumes 50% more natural resources than the earth can sustainably produce, while high-income countries have an 'ecological footprint' that is five times greater than low-income countries.²⁴ The consequences of this excessive demand on planetary resources include: the pollution and degradation of land, water sources and the atmosphere; the widespread loss of forests; the rapid extinction of plant and animal species; 'peak oil' and other peak energy scenarios; as well as the conflict and war that already takes place over the world's dwindling natural resources.

We have to act now

The causes of climate change and the broader ecological crises are complex and addressing them will require reconceptualising existing notions of prosperity and wholesale economic reorganisation. Creating a sustainable and just world is clearly impossible unless we change patterns of production and consumption that deplete natural resources, erode biodiversity and lead to climate change, and until we place the rights of Mother Nature before commercial interests.²⁵ However, it is not necessary to wait for these transformations to occur before acting decisively on climate change; it is possible to make a difference to human lives within a relatively short space of time, and this could pave the way for more fundamental reforms to the world's political and economic systems.

For many decades, the international community has recognised the need for climate finance to be provided to the developing world where the consequences of global warming are most severe. By investing in low carbon development initiatives, disaster early warning systems and other mechanisms that already exist, developing countries would be better able to adapt to and mitigate the worst impacts of climate change. There is also an urgent need for governments across the world to invest heavily in renewable energy and green infrastructure projects, as these are some of the simplest ways to reduce emissions and facilitate a transition to a low carbon economy.²⁶ Campaigners and organisations have long argued the benefits of implementing these measures both nationally and globally, often as part of a 'green new deal' that could aid the transition to a sustainable economy and create millions of 'green' jobs in the process.²⁷

If our goal is to live in a sustainable world without needless deprivation or poverty-related deaths, then we are clearly moving in entirely the wrong direction by undermining the sharing economy and destroying our ecosystem in the process. Safeguarding human lives across the world by reversing policies of economic austerity, preventing life-threatening deprivation and ameliorating the worst impacts of climate change must become an urgent goal for the international community. And it is possible to implement these emergency measures without governments engaging in a lengthy process of economic reform or pursuing binding international agreements. In order to achieve this moral imperative within an immediate timeframe, we need to strengthen and scale up existing systems of sharing by harnessing and redistributing public finances for the common good of all humanity. The future of earth is in the balance, never has so much been at stake, but the poorest of the world cannot afford to wait for a new economy to be constructed – we have to act now!

Notes

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13. Figures based on World Health Organization, Disease and injury regional estimates, Cause-specific mortality: regional estimates for 2008, <www.who.int/healthinfo/global_burden_disease/estimates_regional/en/index.html> Note: Only communicable, maternal, perinatal, and nutritional diseases have been considered for this analysis, referred to as 'Group I' causes by the WHO. Ninety six percent of all deaths from these causes occur in low- and middle-income countries and are considered largely preventable.
14. Since the Second World War, in which around 60 million people lost their lives between 1937/39-1945, there is no evidence of more than 15 million people dying as a result of any one specific event in a single year. In comparison, the ten deadliest natural disasters of the entire 20th Century led to the death of around 5 million people.
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Part 3: 10 policies to finance the global sharing economy

The following sections outline how governments can mobilise over \$2.8 trillion to finance the global sharing economy as an immediate global priority.

Each section presents an overview of a specific policy that campaigners have long advocated for, such as debt cancellation, increased international aid or tax justice.

An estimate is provided for how much money governments could mobilise if they implemented these recommendations.

Additional boxes explain related ‘global justice’ issues in more detail, such as the problems associated with financial speculation, free trade and perverse subsidies.

A short assessment of the feasibility and current state of play for each policy recommendation is included in terms of both political progress and public support.

Key additional resources are also highlighted alongside important campaigns that can help concerned citizens to learn more and get involved in the global movement for sharing and justice.

For many years, numerous reports and initiatives have highlighted the need for innovative policies for raising additional finances to fund urgent global needs. These include a number of reports that have focussed on new ways of raising money to meet the Millennium Development Goals, or to finance climate change mitigation and adaptation programs in the Global South.¹

The current report is somewhat broader and less technical in its remit, and aimed at concerned citizens and campaigners rather than policymakers and economists. Although the recommendations set out in the following 10 sections draw on many of the options advocated in existing reports, the focus here is not exclusively on development or climate finance. Instead, this report illustrates how the international community has the means to mobilise and redistribute staggering amounts of money to finance the global sharing economy and end needless poverty-related deaths, whatever the cause. As a foremost global priority, governments should use the additional revenues to reverse austerity measures, prevent life-threatening deprivation and mitigate the human impacts of climate change.

If taken together, the policy recommendations presented below could enable the international community to mobilise more than **\$2.8 trillion** within a short number of years, money that governments should use to strengthen and scale up the sharing economy both nationally and globally [see table one]. This colossal sum amounts to approximately 4% of global GDP – twice as much as required for securing a basic level of social protection for all the world's poor.²

As explained in the following sections, the figures presented are only broad annual estimates and most are extremely conservative. For example, only the partial sums that could be saved from global tax avoidance are included; billions (or globally even trillions) more dollars of public revenue could be raised each year from preventing illegal tax evasion, strengthening tax systems in the Global South and adopting more progressive taxation policies in the North. Of the \$4 trillion of debt owed by developing countries, as outlined in the section on cancelling unjust debt, only illegitimate 'dictator debt' has been included in the calculation; governments can and must in fact cancel considerably more. Similarly, as outlined in the section on military expenditure, there is no reason why governments should not divert much more than a quarter of current spending. Even the annual estimate for redistributing IMF resources does not include a one-off sum of \$165 billion that could be raised by releasing the Special Drawing Rights that already exist. Furthermore, there are various additional and innovative options available to governments for raising financial resources that are not considered in this report, such as commodity taxes, a global wealth tax or a new International Finance Facility.

Besides enabling governments to raise additional public finances, many of the recommended policies are clearly beneficial in their own right. For example, carbon taxes could help significantly reduce CO₂ emissions, and a financial transactions tax could help reduce the amount of the most risky speculative transactions – the sort of gambling that helped trigger the financial crisis and drove up gas and food prices around the world. Together, the modest proposals outlined in this report could help establish a world with less military spending, a fairer international trade regime, less national debt, less corporate

Table 1: How much money could governments mobilise?

Policy recommendation	(\$) ¹ US dollars per annum
Tax financial speculation	650bn
End fossil fuel and biofuel subsidies	531bn
Divert military spending	434.5bn
Stop tax avoidance	349bn
Increase international aid	297.5bn
End support for agribusiness	187bn
Redistribute IMF resources	115.5bn
Tax carbon emissions	108bn
Cancel unjust debt	81bn
Protect import tariffs	63.4bn
Total	2,816.9bn

welfare, and more progressive and effective forms of taxation. Achieving these long-standing and widely championed goals would be an enormous step in the right direction for the international community, signalling a triumph for millions of people working towards progressive change, and paving the way for more transformative reforms to the world's economic and political systems that must urgently follow.

For many years, organisations and individuals around the world have supported the policy recommendations presented in this report and many of the campaigns associated with them. In some cases, advocacy by civil society has pushed these proposals to the top of the political agenda. Most notably, it now looks increasingly likely that governments will soon implement a financial transactions tax in a number of European countries following a very successful 'Robin Hood Tax' campaign. Similarly, campaigns to increase international aid and cancel 'Third World' debt – such as the Make Poverty History and Jubilee 2000 mass mobilisations – have previously gained widespread support from the public. Today, the issue of tax evasion and avoidance is also widely discussed by policymakers as a result of the growing public debate around tax justice.

If public support for all the policies and campaigns in this report continues to grow, the possibility of mobilising public opinion on a global scale and transforming governmental policy fast becomes a reality. For this to occur, everyone reading this report – especially those who are new to these issues – must add their weight to the global call for sharing and justice.

Notes

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1. Tax financial speculation

Speculative activity across financial markets, driven largely by hedge funds and investment banks, is increasingly disconnected from the real economy and has destabilised economies all over the world.

A financial transaction (FTT) tax can help regulate and stabilise speculative markets by disincentivising the most short-term trading, while generating additional revenues that governments can redistribute internationally to help reduce poverty or mitigate climate change in developing countries.

An FTT could yield around **\$246bn** per year within the European Union, and as much as **\$650bn** if implemented globally.

FTTs are technically feasible for governments to implement unilaterally or on a global scale, and there is widespread support for them from civil society and politicians, particularly within Europe.

The buying and selling of currencies, stocks, derivatives, commodities and a host of more complex financial products is a highly lucrative and rapidly expanding global industry.

Despite fervent government support for banks and the financial sector across the world, it is widely accepted that some elements of these markets – if left unregulated – have the power to destabilise the global economy, push up the price of essential goods, and increase hunger and malnutrition in low-income countries. Given their highly adverse consequences, limiting the impact of these speculative activities on domestic economies and the world's poor has long been an urgent priority for global justice campaigners. The most widely promoted method of deterring the worst kinds of speculation – a Financial Transaction Tax (FTT) – can also raise significant additional finance for poverty eradication, social protection and climate change adaptation and mitigation programs.

The number of speculative financial transactions that take place each day is phenomenal, particularly in relation to currency speculation which has become the largest marketplace in the world. The typical volume of foreign exchange transactions in the 1970s fluctuated between \$10 and \$20bn worldwide, a figure that more than tripled to \$60bn by 1983.¹ By 2004, the average daily turnover in global currency markets had rocketed to almost \$2tn, and it has since doubled to reach nearly \$4tn a day in 2010.² Foreign exchange transactions now dwarf the trading volume of all other asset classes, such as bonds and stocks. The trading of commodities is also fast expanding, with the number of assets under management having already doubled since 2008 [see figure 1].³

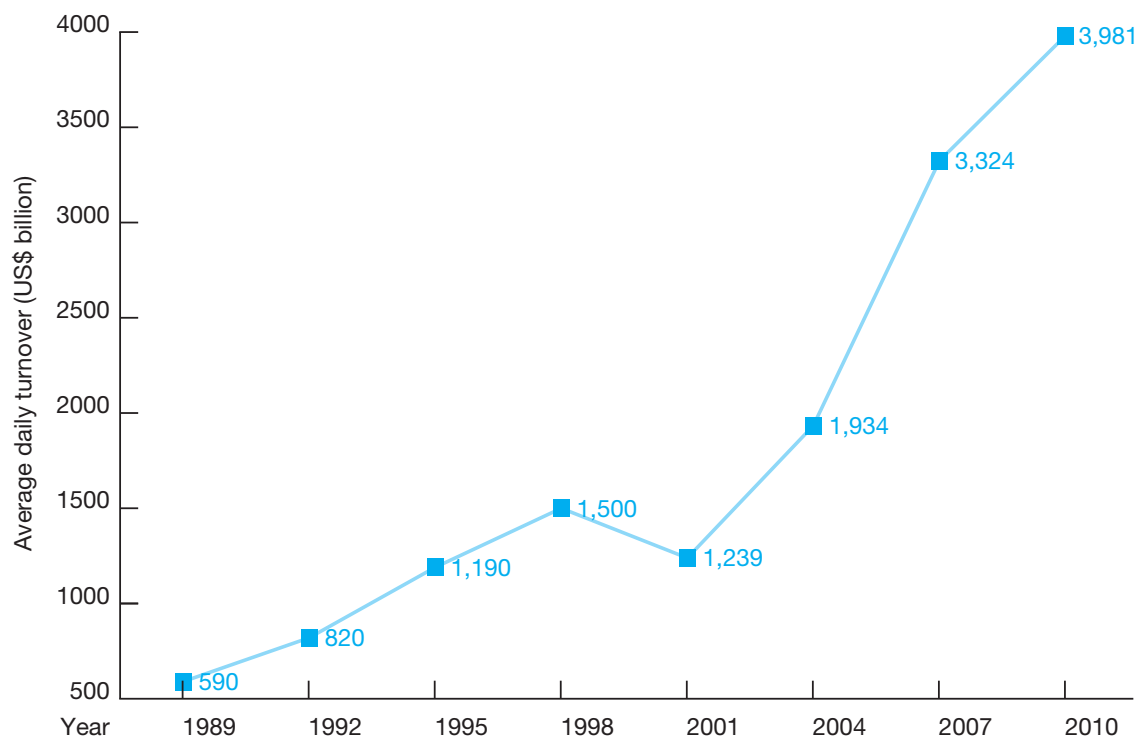
The international market for derivatives – financial securities used for risk management and high risk investments – has expanded more rapidly than any other speculative market in recent years. Derivatives are traded between banks and hedge funds or through specialised exchanges, and include 'futures', 'options' and the 'credit default swaps' that were at the centre of the financial crisis of 2008. The notional value of all derivatives contracts at the end of 2011 stood at more than \$648tn – a six-fold escalation over the past 10 years [see figure 2].⁴

Stock exchanges can perform many useful economic functions, such as raising capital for commercial ventures or helping farmers set the price of their future crops, and the ability to exchange currencies is essential for facilitating international trade. However, the majority of financial transactions that now take place in all these markets are highly speculative in nature, comprising complex forms of gambling using innovative, increasingly opaque and under-regulated financial products. While remaining highly profitable for a minority of wealthy individuals and corporations, this kind of speculation often bears no relationship to the 'real' economy (concerned with actually producing goods and services) which has been relegated to a mere side-show in the money-making game popularly known as the global casino. Most traders have little interest in the product being traded other than its ability to reap them quick financial rewards.

Regulation and redistribution

With public opinion increasingly aligning against corporate excesses and unbridled greed in the financial sector, much more could now be done to regulate speculative transactions, reduce their volume and limit their negative impacts. John Maynard Keynes originally proposed taxing financial transactions in order to increase financial stability during the Great Depression of the 1930s. A number of other economists, most notably James Tobin

Figure 1: Global foreign exchange market turnover, daily average 1989–2010



Source: Bank for International Settlements/World Bank Development Indicators.

in 1972, have since resurrected the idea and further developed it into a range of taxation options that can also raise additional tax revenue to finance poverty reduction and other urgent social or environmental programs.

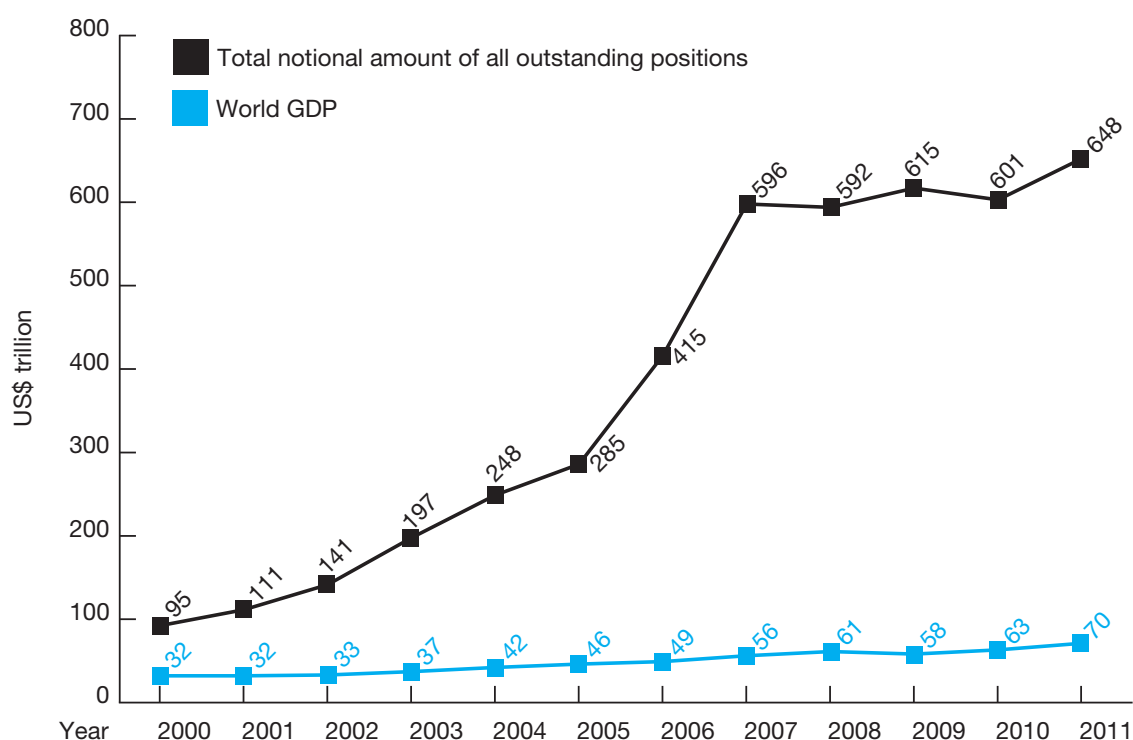
In simple terms, an FTT is a very small levy placed on the trading of stocks, derivatives, currencies or other financial instruments. The tax would only apply to wholesale domestic and international financial transactions at the point of settlement, and would not directly affect transactions made by ordinary people, such as payments for goods or services.

In this way, governments can design FTTs to target the type of short-term financial speculation that has little social value but poses high risks to the economy. At the same time, the tax would be small enough for institutions to absorb comfortably. As emphasised by the International Monetary Fund (IMF), a tax on the financial sector would be 'highly progressive', falling predominantly on the wealthy individuals who own or participate in the activities of hedge funds and investment banks.⁵

The exact amount an FTT can generate depends on the geographical breadth of the tax, the type of financial instruments targeted and the rate at which they are taxed. The impact the levy might have on the market by deterring transactions is another variable that needs to be taken into account. An authoritative estimate suggests that a broad-based tax collected globally – the option generally preferred by civil society groups as well as the United Nations – could raise as much as \$650bn each year.⁶

According to a conservative estimate by The Task Force on Financial Integrity and Economic Development, a currency transaction tax charged on both spot and derivative foreign exchange dealing, at a rate of only one half of a basis point (one two hundredth of a percent), is likely to reduce speculative activity by 25%.⁷

Figure 2: Positions in the global over-the-counter (OTC) derivatives market 2000–2011



Note: Over-the-counter (OTC) trading involves financial instruments such as stocks, bonds and commodities traded directly between two parties.

Source: Bank for International Settlements – OTC Derivatives Market Statistics/World Bank Development Indicators.

The main beneficiaries of financial speculation are individual market traders driven by the prospect of making fast profits and big bonuses, as well as the hedge funds, investment banks and other companies that employ them. Together, these actors form a financial elite who reap huge profits from market volatility, while the bulk of humanity continues to struggle with the dire consequences of their excessive risk-taking such as rising food prices, job losses and economic austerity [see box 9]. A financial transactions tax (FTT) would not be enough to curb the manifold problems associated with reckless speculation, but it would represent a significant step in the right direction by throwing ‘sand in the wheels’ of markets while also raising billions to tackle poverty, reverse austerity measures and address climate change.

How much revenue could be mobilised

A low-rate FTT of 0.01-0.05%, applied differentially to a wide range of transactions, could raise as much as **\$650bn** per year if implemented globally.⁸

While universal implementation would be ideal, national or regional FTTs are also feasible. An EU-wide FTT also at a low-rate of 0.01-0.05% could raise around **\$246bn** (€200bn) per year.⁹

An interim option is a narrower tax applied globally on foreign exchange transactions alone. This could be implemented quickly and easily at a tax rate of 0.005%, yielding around **\$40bn** annually.¹⁰

The dangers of financial speculation

In July 1944, the Bretton Woods system was put in place to fix the currencies of all countries to the US dollar, and in turn the US committed to keep its dollar convertible into gold upon request from any central bank at a fixed rate of \$35 per ounce of gold. This system worked well for over two decades with high worldwide economic growth and monetary stability (the so-called golden age of capitalism) until President Nixon reneged on the convertibility promise of dollars into gold in 1971, thus inaugurating a new era of freely floating currency exchanges. This structural shift was accompanied by massive financial deregulation programs in both rich and poor countries from the 1980s, driven largely by the blind faith of Western governments in the virtues of the free market. Since then an extraordinary build-up of speculative activity has taken place throughout the world, facilitated by the computerization of trading systems. Today, speculative trading is a pastime accessible to anyone with the financial means to participate.

Currency crises

A major consequence of the growth in financial speculation is increased volatility in international currency flows. With nations increasingly dismantling their financial regulations, governments are often rendered powerless to halt the rapid flow of capital in and out of countries. This process (known as ‘capital account liberalisation’) presents speculators with new markets to exploit, but with no currency controls or taxes in place to stop a speculative attack the rate of a nation’s currency can suffer a severe devaluation in a very short period of time. Well-known examples of the effects of speculative attacks include the Mexican ‘peso’ crisis (1994), the Asian meltdown (1997), the Russian financial crisis (1998), and the Argentine economic crisis (1999-2002). Figures show that more than 90 countries experienced a ‘severe financial crisis’ between 1990 and 2001 alone, meaning that the value of the currency depreciated in a given month by at least 25%.¹¹ The impact of these speculative attacks can devastate economies as businesses collapse, job losses become widespread and the numbers of people living in poverty inevitably escalate.

Global financial crisis

Various kinds of speculation were also widely cited as a major cause of the global financial crisis in late 2008. With no effective oversight in place prior to the crisis, there was nothing to prevent traders creating risky financial products that were so complex that even regulators didn’t fully comprehend their risks and instead awarded them inflated credit ratings.¹² While intense competition between banks led to the widespread lending of ‘sub-prime’ mortgages to American home buyers, the boom in ‘innovative’ financial securities such as the infamous credit default swaps (CDS) laid the ground for numerous fraudulent acts, misjudgements and finally market collapse. As the United States housing-price bubble burst, the complex financial instruments created out of homeowner debt were rendered worthless. This triggered the collapse of speculative positions across world stock markets, and many institutions that had invested heavily in these dubious securities had billions wiped off their balance sheets. Traders across the world responded to the crises by ‘short selling’ (betting on a drop in the share price of the banks that held these assets), which is now pin-pointed as a major cause of the dramatic falls in the share prices of huge financial companies and banks, including Lehman Brothers.¹³ According to the IMF, governments spent almost \$12tn bailing out banking institutions affected by the crisis – constituting a massive socialisation of private banking losses.¹⁴

Food price crises

Evidence shows that excessive speculation significantly contributed to the rise in food prices that reached record levels in 2008, and again peaked in early 2011.¹⁵ This is despite the initial insistence of financial market consultants and even policymakers who claimed the price rises reflected real changes in demand and supply, rather than the actions of powerful investors looking to profit from short-term changes in price – and who therefore capitalise on food price volatility.¹⁶ Although this hits rich countries hard by increasing the average household food bill and forcing up overall inflation, the consequences can be life-threatening for the world's poorest people who often spend around 70 percent of their meagre budgets on food. Between 2007 and 2008, the price of cereals on world markets increased by more than 80 percent, whereas the price of maize shot up by 90 percent. As a result, forty four million people were pushed into extreme poverty by rising food prices in the last six months of 2010 alone, equivalent to almost two in every three people in the UK.¹⁷ Even though there is enough food for everyone, many die of hunger simply because they can no longer afford to pay for it.

World leaders may profess the importance of regulating financial markets, but there is little sign yet of sufficient coordinated action being taken to prevent the continued rise in speculative activity. On the contrary, new forms of rapid computer-driven speculation (known as high frequency trading) have flourished in recent years, threatening to cause even greater havoc in markets for commodities which are central to our economies and the lives and well-being of ordinary people.¹⁸ In the longer term, the risky behaviour and excessive speculative activity that drove the world into a financial crisis in 2008 can only be prevented through new forms of global regulation and the construction of a truly cooperative international financial framework. In the words of the United Nations Conference on Trade and Development (UNCTAD); “Nothing short of closing down the big casino will provide a lasting solution.”¹⁹

The international campaign for a Robin Hood Tax

For decades, campaigners and civil society organisations have called for casino-style gambling on financial products to be better regulated, and for a fair share of the excessive profits from these transactions to be redistributed to fund poverty eradication or climate change mitigation. Worldwide interest in FTTs has surged since the financial crises of 2008, bolstered by the consequent growth in government debt and the widespread perception that the excesses of the financial sector were in large measure responsible for the crisis.

Whether or not the introduction of a financial transaction tax is feasible was the focus of considerable debate among economists and policymakers for many years. Concerns ranged from technical issues, such as the difficulty of implementation and the risk of evasion, to political issues such as the likelihood of a global agreement and universal application. For example, there is a delicate trade-off between the amount of additional revenue a tax could raise and the volume of trade it could eliminate; if the rate is set too high, it would reduce trading to the extent that tax revenue falls substantially.

Numerous reports by diverse advocacy groups and countries now provide ample evidence that any political and technical barriers to introducing FTTs can be overcome. The highly automated and centralised nature of the present financial system means an FTT would be hard to avoid as well as easy to collect, and the IMF has admitted it is

technically feasible to implement them.²⁰ In fact, governments in more than 40 countries already operate various types of FTTs very effectively.²¹ For example, seven countries raise around \$23bn dollars each year through existing forms of FTTs, almost half of which is accounted for by stamp duties on equities in the UK and South Korea alone.²²

Civil society leads the way

The main international body promoting FTTs is the Taskforce on International Financial Transactions and Development who released a major report on the subject in 2010.²³ Support for a global FTT now comes from a broad range of business leaders, policymakers and economists,²⁴ including over 1,000 Parliamentarians from over 30 countries²⁵ and 1,000 economists who signed an open letter to G20 ministers in April 2011 urging them to “tax City speculators to help the world’s poor”.²⁶

While the financial lobby remains a strong opponent, there is some support for an FTT from within the banking sector.²⁷ FSA Chairman Lord Turner and financier George Soros have both publically backed FTTs. The French bank Crédit Coopératif has even implemented a Currency Transaction Tax (CTT) of its own accord, with all funds going towards international development.²⁸ There is also significant support from prominent individuals and organisations in the U.S. where Representatives Peter DeFazio and Peter Stark introduced separate Acts on the issue during the 111th Congress, and further bills are likely to be introduced during the 112th Congress.²⁹

Advocacy and campaigning for an FTT by civil society is more robust than ever before. The French alter-globalisation movement ATTAC (Association for the Taxation of Financial Transactions and for Citizens’ Action) originally formed in 1998 as a single-issue campaign to promote a global tax on foreign exchange transactions. More recently, The Robin Hood Tax (RHT) campaign has played a significant role in spearheading advocacy efforts in the UK and Europe with a rapid growth in support from individuals and other NGOs.³⁰ In 2012 a grassroots Robin Hood Tax movement also took off in the U.S., with tens of thousands of people rallying in cities across the country to tell President Obama that it’s time to put ‘a tiny tax on big banks’.³¹

On the brink of an EU-wide FTT?

A key moment for the FTT campaign was at the G20 meeting in Cannes, November 2011, at which time the Vatican and other senior Church figures such as the former Archbishop of Canterbury Rowan Williams supported the implementation of an FTT as one of a number of radical reforms to the global financial system.³² The Microsoft founder Bill Gates also threw his weight behind European efforts to introduce a small tax on financial trades in a report to world leaders, which he believes could initially work on a regional basis, such as between G20 members or European countries, and would not depend on universal adoption before being implemented.³³

On 28th September 2011, the president of the European commission, José Manuel Barroso, announced that Brussels had adopted the idea of an FTT following backing from Germany, France and a number of other European countries. Under Barroso’s proposals, a minimum tax rate on the trading of bonds and shares would be set at 0.1% and at 0.01% for derivative products (levied on trades where at least one of the institutions is based in the EU), which could raise \$78bn a year (€57bn).

Although tax changes at an EU level must be supported by all 27 member states and many governments remain staunchly opposed to the proposals (particularly the UK), there is increasing hope for an FTT to be tried in the 17 countries that make up the eurozone. Four of Europe’s five biggest economies – France, Germany, Spain and Italy – are committed to setting up an FTT in Europe, along with a ‘coalition of the willing’ of other member states. Germany remains the driving force behind an FTT being agreed among EU nations, despite progress moving in fits and starts owing to the euro debt

crisis. Even the U.S. is beginning to shift position, with Obama expressing a neutral stance on the EU proposal alongside growing support for the general concept in the halls of Congress. On 1st August 2012, President Hollande in France took the lead by introducing the first unilateral FTT in Europe at a rate of 0.2% – double the rate proposed by former French President Sarkozy – with promises that some of the revenue will be allocated to development.³⁴

This is a campaign that civil society can feasibly win. But with significant opposition to the tax remaining from those within the financial industry and many politicians across North America and Europe, it is imperative that campaigners persist in their united demands for an FTT to be implemented globally. The tax should be set at a rate high enough to reduce the global volume of speculative trade significantly, and applied broadly in order to cover the full spectrum of speculative transactions. Most importantly, it is imperative for civil society to ramp up pressure on governments to use the revenues generated to fight poverty and climate change.

Learn more and get involved

An Idea Whose Time Has Come: Adopt a Financial Transactions Tax: A briefing paper by John Dillon for Kairos, May 2010, that overviews the current debate around an FTT in its historical context, and explores the growing political momentum in its favour. <www.kairoscanada.org>

Currency Transaction Taxes: Articles and resources compiled by Global Policy Forum based at the United Nations headquarters in New York. <www.globalpolicy.org/social-and-economic-policy>

Financial Transactions Taxes and the Global South – Frequently Asked Questions: A factsheet by the Institute for Policy Studies outlines the positive outcomes that these taxes will generate for developing countries. <www.ips-dc.org>

Financial Transactions Tax Now! A campaign for a European Financial Transaction Tax. <www.financialtransactiontax.eu/en>

Regulate Global Finance Now! A coalition of progressive forces called Europeans for Financial Reform that have come together to spearhead a campaign for real reform in our banking and financial system. <www.europeansforfinancialreform.org>

The Robin Hood Tax campaign: Part of a movement of campaigns in more than 25 countries committed to reducing poverty and tackling climate change by taxing financial transactions. <www.robinhoodtax.org>

The Robin Hood Tax: the Time is Now: Oxfam media briefing published in June 2011 on why a Financial Transaction Tax (FTT) is morally right, politically attractive and technically feasible – and how it could raise billions to fight poverty and climate change. <www.oxfam.org>

Short film on 'Food speculation': A short film by World Economy, Ecology and Development (WEED) that describes how food speculation works, what the dangers are, and what needs to be done. <www.weed-online.org/themen/english/5021520.html>

The Taskforce on International Financial Transactions and Development: The main international body promoting FTTs, formed by the Leading Group on Innovative Financing for Development – a global platform made up of 55 member countries operating alongside international organisations and NGOs. <www.leadinggroup.org/rubrique113.html>

World Parliamentarians Call for Tobin Tax: A list of Members of Parliament in 33 countries who support a financial transactions tax. <www.tobintaxcall.free.fr/list.htm>

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2. End fossil fuel subsidies

The burning of fossil fuels is the largest contributor to global warming, and it will be impossible to keep carbon emissions to safe levels if governments continue to subsidise fossil fuel production and consumption.

Subsidies provided to producers and consumers of fossil fuels worldwide currently amount to **\$509bn** annually, compared to only \$66bn in subsidies for renewable energy.

Biofuel subsidies currently amount to **\$22bn** a year, even though evidence suggests that biofuels do not constitute an ethical, environmentally sustainable or economically viable alternative to fossil fuels.

Governments could raise **\$173bn** in the immediate term by progressively reducing consumer subsidies and eliminating producer and biofuel subsidies altogether. This figure could cumulatively increase to **\$531bn** a year if consumer subsidies are phased out completely by 2020.

International development banks, aid agencies and export credit agencies also provide significant financial support for controversial fossil fuel projects in developing countries – a trend that currently shows no sign of abating.

As greenhouse gas emissions continued to increase by a record amount last year, redirecting the enormous financial support given to the fossil fuel industry should constitute an urgent priority for world leaders.¹

The burning of fossil fuels is the largest contributor to global warming, and the International Energy Agency (IEA) recently reported that the continued building of fossil fuelled power stations over the next five years will make it impossible to keep carbon emissions to safe levels.² Ending damaging subsidies for highly polluting industries could enable governments to redirect resources to clean and renewable energy sources, as well as provide climate financing for adaptation and mitigation programs in developing countries where climate change is already having a devastating impact.

Fossil fuel subsidies from governments fall into two broad categories: ‘producer subsidies’ that constitute financial transfers to the fossil fuel industry – mainly large oil and gas multinationals involved in extraction, processing and distribution; and ‘consumer subsidies’ that are mainly provided to reduce the end-use prices of fossil fuels. While notoriously difficult to estimate, these two forms of fossil fuel subsidies alone currently amount to an estimated **\$509bn** annually.³ In comparison, rich nations collectively spend less than a third of this amount combating poverty through official development assistance [see section 5], and support for renewable energy remains low in comparison to conventional fuels, at \$66bn a year – around one third of which is given to biofuels despite their destructive impacts [see box 10].⁴

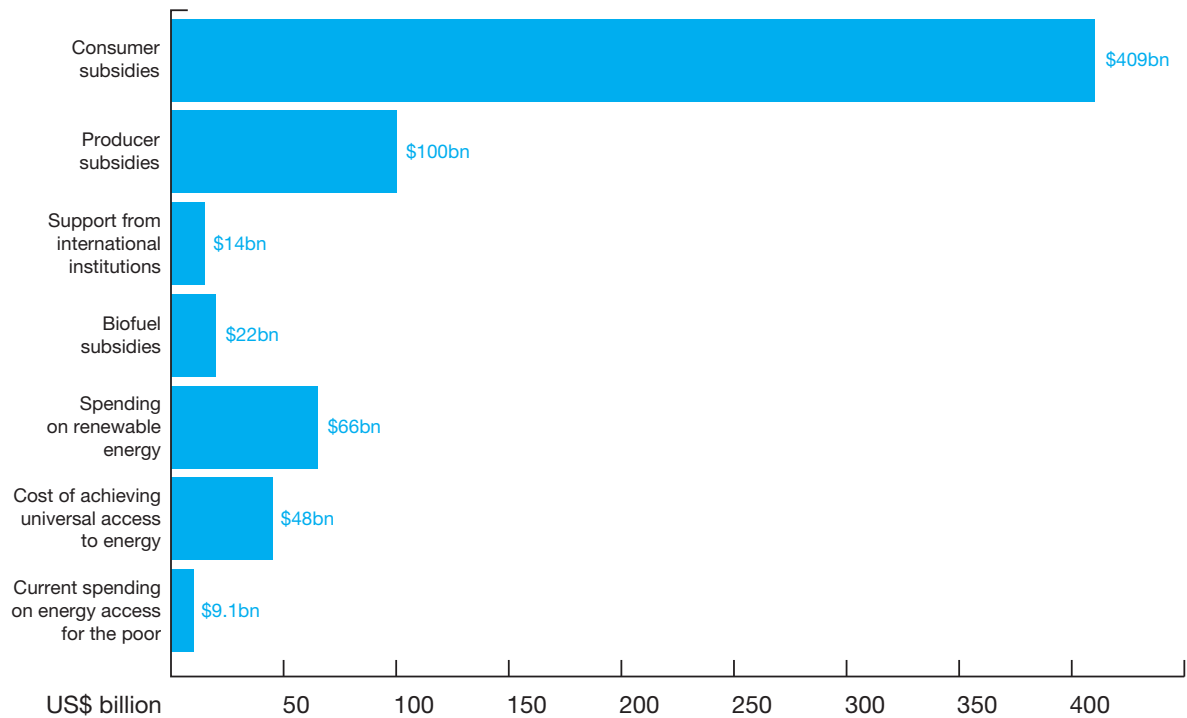
In economic terms, fossil fuel subsidies make alternative sources of renewable energy appear relatively more expensive, thereby reducing demand for them at a time when a switch to low carbon energy supplies is vitally important for meeting emissions targets. As well as undermining the competitiveness of energy alternatives that are clean, green and economically viable, artificially lowering dirty energy prices can also exacerbate price fluctuations in energy markets.⁵ The overall effect of maintaining subsidies is to lock economies into longer-term reliance on fossil fuels, and increase the economic advantage of these powerful and highly polluting industries at precisely the moment we urgently need to move away from their dominance in our economies. This trend is further exacerbated by the fact that few countries properly include the environmental costs of the fossil fuel cycle in the prices for those fuels.

Put simply, these subsidies encourage the overuse of carbon intensive energy and the depletion of fossil fuel deposits. And this is notwithstanding the wider impacts of ‘dirty energy’ production, such as chemical pollution and the extensive degradation of land and water sources.⁶ For example, the life cycle of coal generates a waste stream and carries multiple hazards for health and the environment that are external to the coal industry. These ‘externalities’ are estimated to cost the U.S. public as much as \$500bn or more each year. If these damages are accounted for in the price of coal it could triple the cost of coal-generated electricity, and therefore make non-fossil fuel power generation more economically competitive.⁷

Subsidies on fossil fuel consumption

Consumer subsidies account for the largest proportion of total government support, and jumped to **\$409bn** in 2010 with the vast majority of them provided in developing countries.⁸ This type of subsidy alone is expected to reach a record \$630bn in 2012,

Figure 3: Key figures in the energy subsidy debate



Source: See text for figures and references. Spending on extending access to energy for the poor includes multilateral organisations, domestic government finance, private investors and overseas aid, cited in IEA World Energy Outlook 2011.

according to the IEA's latest estimate.⁹ Support for energy consumption can be provided through several channels, including direct financial transfers, tax relief, price controls intended to regulate the cost of energy to consumers, and schemes designed to provide consumers with rebates on purchases of energy products.¹⁰ The defenders of consumer subsidies argue that they help to lower the cost of fuel and electricity for the poor, but most of the benefits typically go to the wealthy and those on middle-incomes who are more able to afford motor vehicles, connect to the electricity grid and own electricity goods.¹¹ In 2010, only 8% of the subsidies for fossil fuel consumption reached the poorest 20% of the population.¹²

As widely proposed by various international agencies, governments should gradually phase out inefficient consumer subsidies in developing countries that encourage wasteful consumption and discourage users from shifting to cleaner sources of energy.¹³ However, ending consumer subsidies must be accompanied by targeted assistance and safety nets to ensure that the poor have access to modern energy services. There are a number of options available to governments for ensuring that the poor have access to fuel during a transition stage, such as temporarily maintaining fuel subsidies that target the poor and introducing other short-term measures to alleviate the impact of fuel price increases on poorer households.¹⁴ The IEA estimate that it would cost only \$48bn each year to ensure universal access to energy for the 2.7bn people who still rely on biomass for fuel and the 1.3bn people who live without electricity.¹⁵

Evaluations by the IEA suggest that phasing out just consumer subsidies universally by 2020 – although an ambitious objective – would decrease global primary energy demand by 5%, equivalent to the combined energy consumption of Japan, Korea and New Zealand. Global demand for oil would then reduce by the equivalent of around one quarter

of current US consumption levels. As a result, global CO₂ emissions would fall by nearly 6% in 2020.¹⁶ According to another study by the OECD, removing consumption subsidies in the 20 largest developing countries over the next decade would reduce global CO₂ emissions by at least 10% in 2050.¹⁷

Government support for fossil fuel production

Producer subsidies are more difficult to estimate and are mainly relevant to rich countries, although a survey by the Global Subsidies Initiative suggests that they could be as high as **\$100bn** a year.¹⁸ Most if not all of the G20 countries are believed to provide this form of support to the producers of fossil fuels, which can take many forms including: direct grants, preferential tax treatment, subsidised or guaranteed loans, and undercharging for the use of government-supplied goods or assets.¹⁹ However, current estimates of producer subsidies are focused mostly on tax breaks, and coverage of credit and insurance subsidies, subsidised government ownership or oil security-related spending is more sparse. Producer subsidies in developing countries can also be very large, although these are rarely tracked at all.²⁰

In contrast to consumer subsidies, government support for fossil fuel energy production cannot be justified on the basis of responding to social needs and distributional objectives. Moreover, producer subsidies protect fossil fuel companies that might not otherwise be competitive, at the expense of industries in related sectors such as renewable energy. The producers of fossil fuels, particularly oil, are among the most profitable and established industries in the world, yet the main benefits of tax breaks and other supports are generally passed on to shareholders in their companies. As such, the rapid phasing out of this enormous drain on government finances should be a major priority of reform efforts.

International support for the dirty fuels industry

International and regional financial institutions and export credit agencies are also key sources of financial support for the production of fossil fuels globally that are not included in these domestic subsidies figures. In particular, the World Bank Group and other regional development banks continue to be some of the largest supporters of environmentally harmful coal, oil and gas projects in developing countries – a trend that shows no sign of abating. For example, the World Bank provided a record-breaking \$6.6bn in fossil fuel financing during 2010, an increase of 116% over the previous year. Of this total, lending for coal-based power reached \$4.4bn, an increase of 356% over 2009.²¹ The overall level of financial commitment to the fossil fuel industry from these various development institutions climbed from \$11.7bn in 2008 to \$14.4bn by 2010.²²

This significant level of financial support is not technically classified as a subsidy and is provided largely in the form of credit supports, including direct loans, loan guarantees, and various export insurance products (hence they are not included in the global fossil fuel subsidies estimate cited above). However, international credit supports ultimately act as subsidies by lowering the cost of building infrastructure for fossil fuel extraction and use in the developing world. All of this financing from international institutions could instead be an important source of public funds to help developing countries transition to cleaner energy and adapt to climate impacts.

The economic benefits of subsidy reform

As detailed in the breakdown below, it is technically possible for governments to raise an immediate sum of **\$173bn** by gradually reducing consumer subsidies and eliminating producer and biofuel subsidies altogether. This figure could increase to around **\$531bn** if governments complete the withdrawal of consumer subsidies by 2020, in line with the IEA's recommendation.²³ Such a massive sum of money is sufficient on its own to finance the poverty reduction and climate change mitigation initiatives outlined in this

report, secure universal access to energy, as well as leverage a significant investment in renewable energy on a global scale.

A review of modelling and empirical studies by the Global Subsidies Initiative has estimated that reforming subsidies at a global level would result in significant economic gains, with aggregate increases in GDP in both OECD and non-OECD countries that could be as high as 0.7% per year.²⁴ Other major benefits of eliminating these subsidies include the huge amount of money that governments could save in costs associated with maintaining access to reliable fossil fuel supplies, such as the colossal military budget required to secure oil in foreign countries and safeguard its transportation to rich countries.²⁵ Most notably, the United States government has developed large stockpiles of oil over several decades and spent billions of dollars in defence costs to reduce the likelihood of supply interruptions and price shocks. These government costs act as an unofficial subsidy to oil and place an enormous burden on national resources paid for by the general taxpayer.²⁶

While the IEA and other international organisations mainly justify the removal of subsidies as a means to correct ‘market distortions’ in the energy sector, a far more pragmatic reason is simply to ensure that valuable public money can be put to better use. There is no sense in governments taxing carbon and committing to cut greenhouse gases on one hand, while continuing to subsidise the consumption and production of fossil fuels that lock us into unsustainable energy use on the other. Ending financial support for the fossil fuel industry would naturally reduce global carbon emissions, and must remain a key civil society demand as pressure mounts on governments to take much bolder action in the fight against climate change.

How much revenue could be mobilised

Producer subsidies

Removing the considerable financial support given to producers of fossil fuels in rich countries could save at least \$100bn each year.²⁷

Consumer subsidies

In line with the IEA’s ambitious objective to completely phase out consumer subsidies by 2020, a gradual reduction of all consumer subsidies (which amounted to \$409bn in 2010) could immediately raise an additional \$51bn in developing countries. This figure could cumulatively increase by \$51bn each year, until all consumer subsidies are eliminated entirely by 2020.²⁸

Biofuel subsidies

Ending support for biofuels could raise a further **\$22bn** annually [see box 10].²⁹

Total potential revenue

\$173bn in the first year,³⁰ increasing significantly each year thereafter to reach **\$531bn** annually by 2020 if all producer, consumer and biofuel subsidies are eliminated.

Ending support for dirty energy

Abolishing fossil fuel subsidies already has considerable support amongst the international community. Since its adoption in 1997, the Kyoto Protocol included the lowering of fossil fuel subsidies as one of the measures that countries could undertake to limit CO₂ emissions.³¹ Commitments to begin these measures were taken at the Group of Twenty (G20) summit in Pittsburgh in 2009, and again in Toronto in 2010. For the first time, world leaders committed to “rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption”.³²

The pledge also reached out beyond membership of the G20 with an almost identical commitment being undertaken by the Asia-Pacific Economic Cooperation (APEC) forum in November 2009, extending fossil-fuel subsidy reform to an additional 12 countries.³³ A further group of countries led by New Zealand and including Denmark, Norway, Sweden and Switzerland also formed the Friends of Fossil Fuel Subsidy Reform group which aims at ensuring an ambitious and transparent outcome to the G20 process.³⁴ More recently, a High-Level Panel on Global Sustainability (including current or former heads of state or ministers) urged governments to phase out fossil fuel subsidies completely by 2020. Recognising that such decisions can be politically unpopular, as underlined by the unrest in Nigeria over fuel subsidy reductions at the beginning of 2012, the report emphasised that reducing fossil fuels subsidies must be done in a manner that protects the poor.³⁵

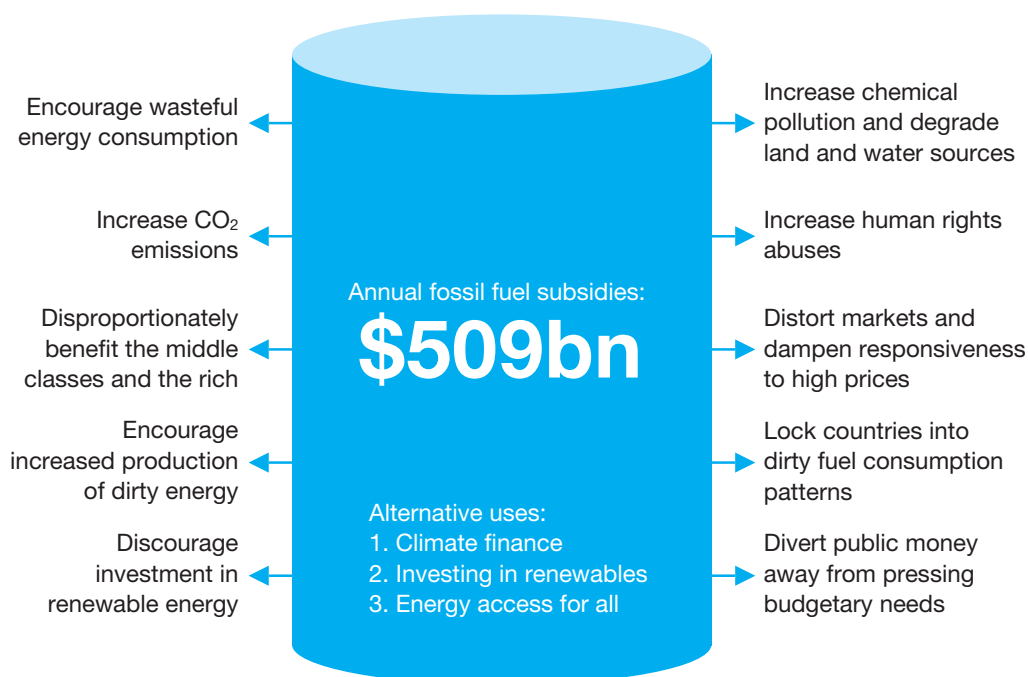
In the context of an economic crisis, high and volatile energy prices, increasing concern over energy security and ongoing pressure to reduce carbon emissions there is also considerable cross-party political support for subsidy reform. Barack Obama specifically campaigned on the issue in 2008, and many high-profile figures have spoken out against using public funds to subsidise ‘dirty energy’, including UN Secretary General Ban Ki-moon, Sir Nicholas Stern, Al Gore and even John Browne (former Chief Executive of BP).

Despite this wide-ranging consensus that unites environmentalists, economists and policymakers, the various pledges have yet to be translated into actual subsidy reductions. The G20 commitment was a positive step forward, but no country has yet initiated a subsidy reform programme specifically in response to the G20 pledge.³⁶ In fact, governments are expected to spend significantly more money subsidising fossil fuels in 2012 than they have in previous years.³⁷ There are also concerns surrounding the reporting of fossil fuel subsidies which remain spotty for many G20 member countries, while spurious reasons are given for omitting many subsidies from reform efforts and even from reporting. According to the latest review of progress by pressure groups Oil Change International and Earth Track, G20 nations are changing their definitions of what is an ‘inefficient subsidy’ in order to prevent making changes to their actual subsidy policies, while non-reporting of subsidies is growing.³⁸

The politics of subsidy removal

Internationally, the politics of implementing the G20’s commitment to phase out support for fossil fuels poses a number of problems. While the dominant type of subsidies in industrialised countries are production subsidies, consumption subsidies mainly apply to developing countries. These poorer countries are legitimately concerned about access to energy for their populations, and may be unlikely to agree to significant subsidy reductions in international negotiations unless the developed nations offer some concessions and put additional finance on the table. Campaigners therefore see part of the solution as using savings from ending fossil fuel subsidies in rich countries to provide funding for climate finance, clean energy technologies and the alleviation of energy poverty in the South.³⁹

Figure 4: The problem with fossil fuel subsidies



Source: Adapted from IEA, OECD and World Bank, The scope of fossil-fuel subsidies and a roadmap to phase out fossil fuel subsidies, November 2010/IEA World Energy Outlook 2011.

A phased removal of subsidies, differentiated in time and by country income level, could also establish trust between countries and help build momentum towards the significant global reductions needed. For example, developed countries could commit to phasing out energy subsidies completely within five years; middle-income developing countries could aim for 10 years; and low-income countries could aim to halve subsidies within 10 years and completely eliminate them in 15 years.⁴⁰ However, limited data availability on government support for fossil fuels remains a significant hurdle to reform efforts, with even developed countries like Germany currently having gaps in information.⁴¹

Given the extremely slow pace of reform, civil society groups are now increasing the pressure on world leaders to fulfil their pledges and establish a definite plan to phase out fossil fuel subsidies by 2015. A large coalition of civil society groups has proposed a range of concrete measures to facilitate this process including: greater transparency and consistency in subsidy reporting; assistance and safeguards for developing countries and vulnerable groups; and identifying or establishing an international body to address the complexities involved in the phasing-out process.⁴²

Subsidy reform has further implications for international development banks, bilateral aid agencies and export credit agencies that should end investments in fossil fuel extraction and use, while shifting the portfolio of their investments to focus on decentralised and sustainable energy solutions that meet the energy needs of the poor.⁴³ While some international aid agencies and even some export credit agencies have begun to shift investments towards energy production options that are both cleaner and more effectively targeting the poor, the main trend is still towards large-scale fossil fuel development.⁴⁴ This is particularly the case for the World Bank Group. The Bank remained the focus of

several worldwide campaigns and large demonstrations in 2011 demanding an end to its controversial fossil fuel lending in developing countries⁴⁵ – including mass opposition to the Medupi coal plant in South Africa, now set to be the world’s seventh largest coal-fired power plant at a cost of over \$3bn.⁴⁶

Battling the fossil fuel lobby

It is widely agreed that there are no major administrative hurdles to eliminating tax breaks, subsidies and other supports to the fossil fuel industry. Removing domestic production subsidies is estimated to have very little impact on global oil supply, or on either global or domestic oil prices. Even exploration and production costs would increase by but a tiny percentage.

Yet there remains a long history of influence that fossil fuel companies wield over governments. In the US, oil and gas companies are always among the industries to spend the most on lobbying, pouring \$132.2m into these efforts in 2008 alone.⁴⁷ Barack Obama notoriously received more money from the fossil fuel industry than any other lawmaker except his Republican opponent during the 2008 election campaign. Current members of Congress took over \$25m in campaign contributions from oil, gas and coal companies in 2009-2010, some of which was paid to House members voting on ending subsidies under the Energy Tax Prevention Act of 2011.⁴⁸ According to Oil Change International, U.S. fossil fuel companies are currently getting \$59 in subsidies for each \$1 they donate to election campaigns – an incredible 580% return.⁴⁹ This lobbying pressure from the fossil fuel industry may be even stronger in countries where the state is heavily involved in the fossil fuel sector, such as Iran, Mexico, Venezuela or Russia.

Clearly the greatest barriers to ending fossil fuel subsidies are political, not technical, and these barriers are largely driven by the dirty energy industry itself. As a result, many environmental activists are now focusing their efforts on pressuring governments to phase out fossil subsidies as a giant step towards solving the climate crisis, with many actions taken at the Rio ‘Earth Summit’ in June 2012.⁵⁰ While governments scramble to make billions of dollars worth of cuts to national budgets, there could not be a tighter case for ending corporate welfare to oil, gas and coal companies and rejecting all their campaign contributions. Campaigners point out that this requires a separation of the fossil fuel industry from the state in order to end its political influence over decision-makers, and to ensure that the current system of energy subsidies reflects the public interest and not the special interests of ‘Big Oil’ and its wealthy allies.

Box 10:

Why we should stop subsidising biofuels

In the 30 years since ‘gasohol’ first entered the marketplace in the US, government subsidies for biofuel production have grown considerably in scope and size. Unlike fossilised fuels that make up oil and coal, biofuels are made from living plants such as rapeseed, palm oil, soy, sugar cane or jatropha – although production of these crops often requires significant inputs of fossil fuels as well. Biofuel subsidies may pale in comparison with the vast sums of money spent in rich countries to support their fossil fuel or agricultural sectors, but the financial costs to taxpayers are still sobering.

Global support for biofuels has rapidly expanded over the last decade and reached **\$22bn** in 2010, the bulk of it in the US and EU.⁵¹ Although biofuel production came to

an abrupt halt in 2010 as a result of poor margins in the US and Brazil,⁵² the biofuel industry is still set to grow significantly in the years ahead if existing targets set by governments are maintained. For example, a mandate in the US requires that 36bn gallons of biofuels must be blended into the US fuel supply by 2022, which would lead to a six-fold increase in subsidies compared to 2008.⁵³ The EU's Renewable Energy Directive (RED) also commits Member States to a target whereby 10% of all land transport fuels should come from renewable sources by 2020, the vast majority of which is expected to be met from biofuels.⁵⁴

The myths of 'agrofuels'

Politicians and corporations justify the large-scale production of biofuels on the basis that they can reduce carbon emissions and lessen our dependency on conventional mineral oil. In reality, however, a wealth of studies have warned that biofuels can produce more greenhouse gas (GHG) emissions than the fossil fuels they are meant to replace when accounting for the land that must be cleared and planted elsewhere to make up for the loss of food crops.⁵⁵ Other evidence suggests that biofuels do not offer a safe or cost-effective way of improving fuel security. Even if all the carbohydrates in the world were converted to biofuel, it would still only provide enough fuel to replace 40% of global petrol consumption.⁵⁶

Crops that may appear sustainable when planted on a small scale quickly turn into environmental problems as acreage grows to meet fuel demand. The rapid conversion of arable land to biofuel production also has serious implications for the environment, food security and the economy. The expansion of land used to grow biofuel crops like soy and palm oil is a major driver of deforestation in South America and South East Asia, threatening many species with extinction. Deforestation and land use change is already the cause of about one quarter of total global CO₂ emissions.⁵⁷ Reports are also growing of forced evictions, appropriation of land and other violations of human rights in biofuel plantations in different parts of the developing world.⁵⁸

Furthermore, the use of crops for fuels means there is less land available for growing food, which raises a serious ethical issue: the competition for grain between the world's 800 million motorists who want to maintain mobility, and its 2 billion small farmers struggling simply to survive in developing countries.⁵⁹ In the wake of the global food crisis, many different studies show that a high percentage of the food price rise experienced in 2008 (possibly as high as 75% according to a leaked World Bank report)⁶⁰ was due to increasing demand for biofuels. If all countries were to meet their biofuel targets, tens of millions more people in developing countries could be driven into hunger.

An unlikely alliance

With such damning evidence, and at such an enormous cost, why do governments continue to subsidise the biofuel industry? A large part of the answer lies in the familiar capture of policymaking by well-organised special interests. An unlikely alliance has evolved around the biofuel boom which includes oil companies, agribusiness, farmers' unions, energy companies, venture capitalists, car manufacturers and even the biotech industry.⁶¹ This powerful, self-interested lobby is able to influence government decisions and exploit loopholes surrounding regulation in order to increase the mandate for uneconomic biofuels. This may help explain why, in the US alone, there are more than 200 different kinds of subsidies to biofuels nationwide.⁶²

There are signs that some governments and policymakers have listened to campaigners and are beginning to rethink their biofuel directives. In January 2008,

the German government ended its tax exemptions and subsidies for biofuels,⁶³ and a recent report by 10 agencies including the World Bank and United Nations has called on G20 governments to eliminate biofuel subsidies due to the evidence that they increase volatility in global food prices.⁶⁴ At the end of 2011, campaigners also won a multi-year campaign in the US when Congress ended a corn ethanol subsidy worth around \$6bn each year, as well as a tariff that helped encourage the development of biofuels.⁶⁵ Yet the worldwide trend still continues towards biofuel expansion, despite its destructive impacts and the misguided belief that it constitutes a viable alternative to oil dependency.

The message for governments should be clear and simple: dismantle all support measures for biofuel programmes (which includes blending and consumption mandates, tax breaks and import tariffs as well as public subsidies) and redirect efforts towards cutting demand, more efficient use of energy, and truly renewable energy sources. Limits, not incentives, must immediately be placed on the biofuels industry. In the words of food security analyst Eric Holt-Giménez: “The question is not whether ethanol and bio-diesel per se have a place in our future, but whether or not we allow a handful of global corporations to determine our future by dragging us down the dead end of the agro-fuels transition.”⁶⁶

Learn more and get involved

Bank Information Centre (BIC): An organisation that influences the World Bank and other international financial institutions to promote social and economic justice and ecological sustainability. <www.bicusa.org/en>

Biofuelwatch: Campaigning against industrial bioenergy – energy linked to industrial agriculture and industrial forestry that includes ‘agrofuels’. <www.biofuelwatch.org.uk>

Beyond Coal: A grassroots campaign to end the massive effort to build new coal plants across North America. <www.beyondcoal.org>

Dirty Energy Money: A campaign to end US government handouts to oil, gas and coal companies and reject campaign contributions from these Dirty Energy industries. <dirtyenergymoney.com>

Earth Track: Founded in 1999 by Doug Koplow to more effectively integrate information on energy subsidies, Earth Track works to make government subsidies that harm the environment easier to see, value, and eliminate. <www.earthtrack.net>

#ENDFOSSILFUELSUBSIDIES: The online petition by campaign group 350.org to end all subsidies and handouts to the fossil fuel industry, and use that money to help build the green economy instead. <endfossilfuelsubsidies.org>

Greenpeace International: Front-line activism to expose the true costs of extracting and producing fossil fuels worldwide. <www.greenpeace.org/international/en>

Low Hanging Fruit: A key report on fossil fuel subsidies, climate finance and sustainable development, published by Oil Change International for the Heinrich Böll Stiftung, June 2012. <www.boell.org>

Oil Change International: An international campaign to expose the true costs of fossil fuels and facilitate the coming transition towards clean energy. <www.priceofoil.org>

Shift the Subsidies: An interactive database to visually track and analyse the flow of energy subsidies from international, regional and bilateral public financial institutions around the world. <www.shiftthesubsidies.org>

The Ultimate Roller Coaster Ride – An Abbreviated History of Fossil Fuels: Presented by the Post Carbon Institute and narrated by Richard Heinberg, this is a quirky five-minute synopsis of the unsustainable trajectory of fossil-fuel dependent economies. <www.postcarbon.org>

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3. Divert military spending

Global military expenditure has risen by more than 50% since 2001, reaching over **\$1.7tn** in 2011 – 12 times more than global spending on aid.

Diverting only a quarter of this amount would free up **\$434.5bn** each year that governments could instead use to save lives and prevent extreme deprivation.

Strengthening United Nations peacekeeping efforts is an important way to reduce both conflict and military spending. The financial gains of such initiatives may be 39 times greater than their cost.

Given the threat to peace and security posed by climate change, poverty and inequality, countries need to adopt a new security strategy based on international cooperation and economic sharing in order to address the underlying causes of conflict.

There is no better example of humanity's dangerous misuse of financial resources than the vast sums of money spent each year on the machinery of warfare.

World military expenditure has risen steadily in recent years despite the global financial crisis of 2008 and the austerity and deficit-reduction measures implemented in the US and Europe.¹ The world as a whole spent an estimated **\$1,738bn** on the military in 2011, an increase of over 50% since 2001 and equivalent to 2.5% of world Gross Domestic Product (GDP) – approximately \$249 annually for each person in the world.²

The phenomenal rise in military spending over the past decade was largely fuelled by the United States, whose activities accounted for nearly half of all global military expenditure in 2010, and still 41% of the world total in 2011 [see figure 5].³ Although two-thirds of countries in Europe have cut military spending to some degree since 2008, other countries around the world have increased their spending considerably – especially China (6.7% increase in real terms in 2011) and Russia (9.3% increase in 2011, making it the third highest global military spender – with further increases of around 50% planned up to 2014). Overall, military spending is significantly rising in the Middle East and Africa, and still modestly growing in most of Latin America, Asia and Oceania.⁴

The continuing magnitude of military budgets reflects how dangerously misguided are current global priorities, especially in light of the devastating impact of armed conflict on individual lives, communities and entire nations. There remains a huge gap between what countries are prepared to spend on military activities and how much of their national income they redistribute to help prevent the unnecessary loss of life, whether by alleviating global poverty or through the active promotion of peace and security. While overseas development assistance from donor countries provided US\$133.5bn in 2011, donations continue to fall far short of urgent global needs and are equivalent to less than 8% of global military expenditure.⁵

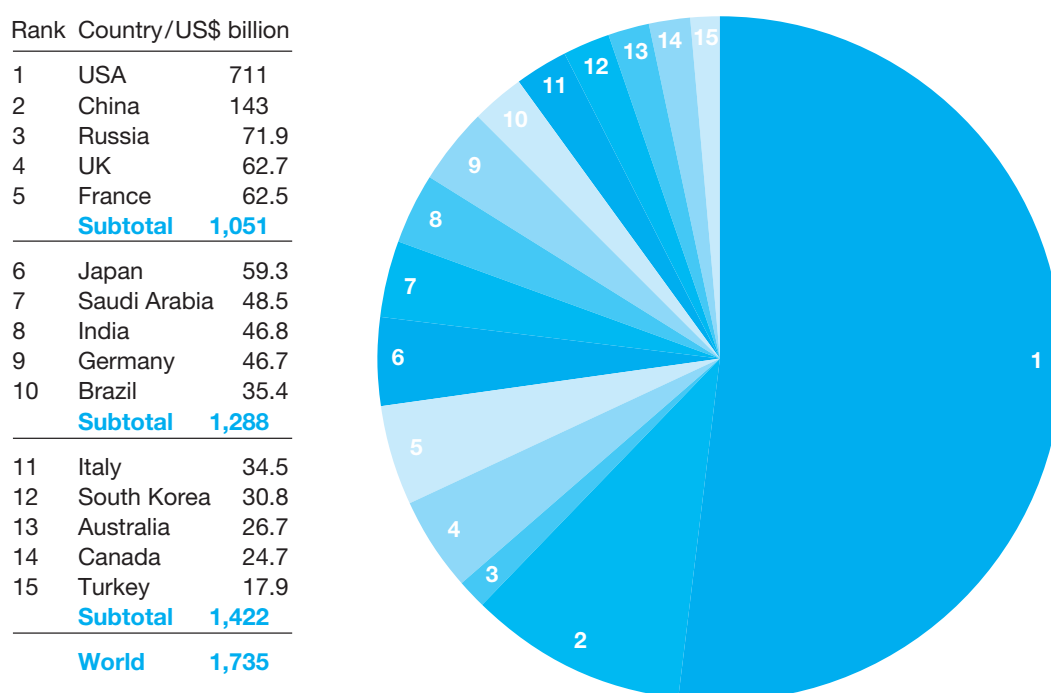
Misguided spending priorities

In comparison, the cost of achieving the Millennium Development Goals on poverty, health and education by 2015, recently estimated at approximately \$120bn in additional annual expenditures globally, is under 7% of current world military spending.⁶ The entire operational budget of the United Nations amounts to less than 2% of the world's military expenditure, less than a quarter of which is directed to UN Peacekeeping operations.⁷

Major armed conflict is increasingly concentrated in a small number of countries, mainly in the Global South. Spending significant proportions of national income on armaments and military operations is particularly controversial in these developing countries where it shifts public funds away from the provision of essential services, such as healthcare or water and sanitation infrastructure. There is also sufficient evidence to suggest that additional military spending does not reduce the risk of further conflict, especially in developing countries where it can be better employed to increase economic stability.⁸

Military spending also diverts resources away from pressing budgetary needs in Northern countries, such as reducing national budget deficits, increasing social protection or investing in the transition to a green economy. Findings suggest that there is little justification for the view that military spending is a cornerstone of the economy, or that it can create stable employment opportunities for millions of citizens. A study in the US concluded that \$1bn spent on sectors such as clean energy, healthcare and education will

Figure 5: Countries with the highest military expenditure in 2011



Source: Stockholm International Peace Research Institute, 2012.

create significantly more jobs – and of better average quality and overall compensation – than would the same \$1bn spent on the military [see figure 6].⁹

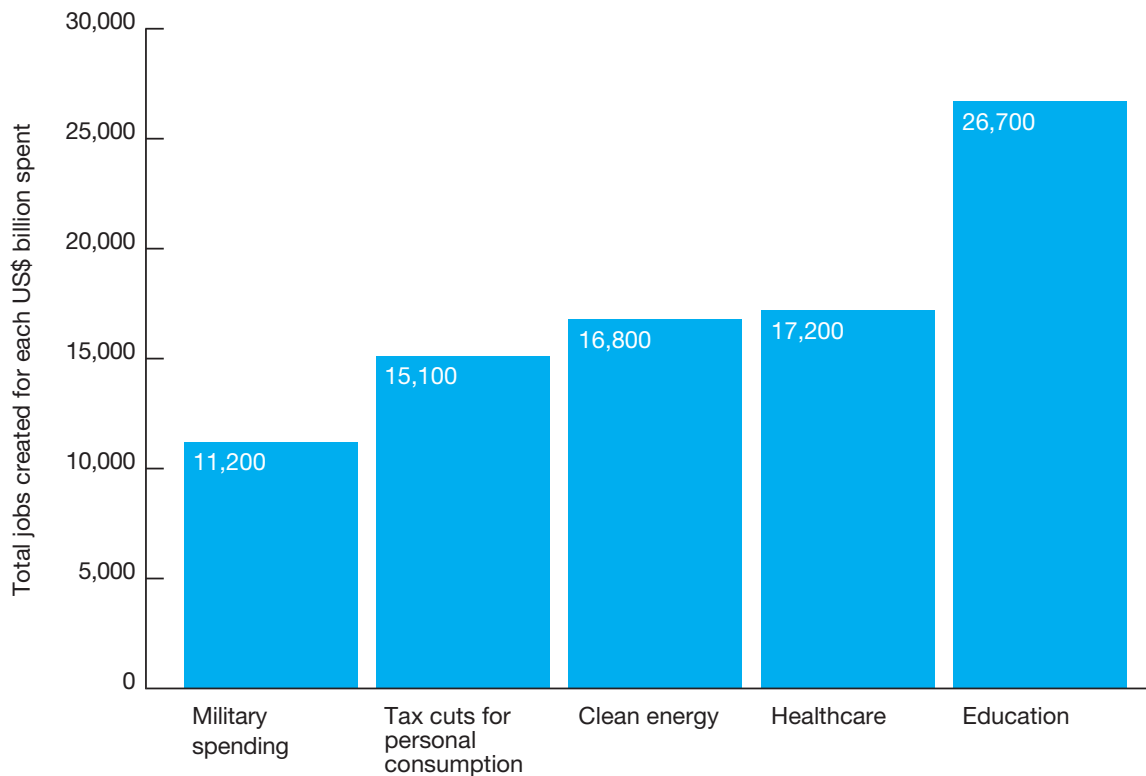
Another study by the Institute for Economics and Peace also contradicts the enduring belief that war and its associated military spending has generated positive outcomes for the economy. By examining five major wars involving the United States over the past 70 years, it showed that higher levels of government spending associated with war did tend to generate some positive economic benefits in the short term, particularly through increases in economic growth, but negative unintended consequences harmed the US economy in the longer term, such as increased levels of public debt and taxation, decreased investment as a percentage of GDP, and increased inflation as a direct result of conflict.¹⁰

The cost of war

According to research by the Institute of Policy Studies, viable expenditure cuts to only the US military budget in three areas – ending the war in Afghanistan, reducing overseas military bases and eliminating programs that are obsolete or wasteful – would free up \$252bn.¹¹ Such measures would reflect a less aggressive approach to foreign policy by the US and other governments, as long demanded by civil society and voiced most prominently in response to the impending invasion of Iraq in 2003. Aside from the unacceptable and massive loss of life inflicted by this single conflict, its economic costs were – and continue to be – significant. A recent estimation by Professor Linda Limes, who co-authored the book ‘The Three Trillion Dollar War’ with Nobel-laureate economist Joseph Stiglitz, calculated that the total cost of the wars in Iraq and Afghanistan are now likely to exceed \$4tn for the US government alone.¹²

Reducing spending on nuclear weapons is another key budget area ripe for cuts. Despite near universal membership to the Non-Proliferation Treaty (NPT) since its inception in 1968, progress on nuclear disarmament remains limited. It is crucial that India, Pakistan,

Figure 6: The number of jobs created for each \$1 billion spent by the US government



Source: Political Economy Research Institute, The US Employment Effects of Military and Domestic Spending Priorities: 2011 Update.

North Korea and Israel finally join the NPT and, in line with the basic tenets of the treaty, that all states in possession of nuclear weapons go much further in ending the development, purchase or deployment of these highly destructive and incredibly costly weapons. US military spending on nuclear weapons remained high in 2010 at almost \$31bn, but these figures increase significantly when environmental, health and other costs are fully accounted for – totalling \$91bn for all countries with nuclear weapons. A report by Global Zero has conservatively estimated that these countries will spend at least \$1tn on nuclear weapons and their direct support systems over the next decade.¹³

Diverting a quarter of all financial resources away from military spending could not only save lives and make the world more secure, but avail a significant peace dividend of **\$434.5bn** each year.¹⁴ Alongside reducing military budgets, nations should end the influence that the defence industry exerts over governments [see box 11]; abolish nuclear weapons; establish an effective international arms trade treaty; assist conflict prone nations to develop economically and maintain social and political stability; and reinforce the work of the UN Department of Peacekeeping Operations.

It is high time governments adopt a different approach to maintaining international peace and security by working cooperatively with the wider international community and seeking alternatives to armed conflict. This is increasingly crucial in light of the very real threats to international peace and security posed by climate change, global poverty and inequality.¹⁵ With these ever-present dangers facing humanity, it is only prudent that the colossal financial resources currently spent on military budgets are redirected to provide alternative national and global public goods for economic and social development in order to further reduce human displacement, suffering and unnecessary death.

How much revenue could be mobilised?

Even small reductions in global military spending can provide a significant peace dividend that could instead be spent on humanitarian operations and poverty eradication programs. The majority of these savings would accrue to the US, which is by far the largest single financier of the world's military activity. As a first step towards reordering their distorted priorities, governments need to redirect at least 25% of their military budgets to urgent human needs as campaigned for by peace groups worldwide. In the longer term, military budgets should be reduced much further in line with the incontrovertible moral, economic and humanitarian arguments.

25% reduction in global military spending = **\$434.5bn** each year.¹⁶

The global call for demilitarisation

Despite hopes for a new era of global cooperation following the dissolution of the Soviet Union, military spending now exceeds Cold War levels and governments continue to rely on military force to protect their national interests. Largely in response to a misguided 'War on Terror', the global anti-war movement reached an historic milestone in 2003 when 10 million people demonstrated in cities across the world demanding that their governments do not invade Iraq. In spite of the contention that these momentous public protests have had little or no impact on government decisions to go to war, civil society groups continue to press governments to reduce military spending and have found plentiful evidence that drastic cuts in military expenditure are both viable and necessary.¹⁷

A report by a Task Force on a Unified Security Budget for the United States has outlined reductions of over 10% of US military spending, detailing \$77bn of the "lowest hanging fruit."¹⁸ The figures show that reducing wasteful military spending alone can yield significant budgetary savings. Such findings bolster the viability of a growing US-based campaign that seeks to reduce military spending by 25% on a state-by-state basis, which could free up almost \$178bn in public finance.¹⁹ The campaign has the support of public representatives and organisations across the country and calls for the savings to be redirected to secure urgent domestic priorities, including jobs and access to housing, healthcare, education and clean energy.²⁰

Civil society has long been calling for the international community to adopt a range of measures that can mitigate military spending and conflict. The problem isn't just about the production of weapons and war machines, but also their sales in overseas countries. A major area of focus has been curbing the global arms trade which helps sustain violent conflict, particularly in developing nations whose governments are the primary importers of conventional arms from the US and other foreign countries.²¹

The non-proliferation and decommissioning of nuclear weapons is another issue that civil society has been campaigning on for decades, in which advocacy work is increasingly focussed on easing domestic budgetary constraints.²² The International Campaign to Abolish Nuclear Weapons is also mobilising support for a coordinated global campaign to discourage financial institutions from investing in nuclear weapons companies.²³ Despite the existence of a number of treaties between nations to limit nuclear capabilities and various agreements to control the use of conventional arms, many have yet to be enforced and there is considerable scope for civil society to push for more decisive measures.²⁴

The road to peace

Strengthening United Nations international peacekeeping efforts is another important way to reduce both conflict and military spending, especially in post-conflict situations. A cost-benefit analysis conducted for the Copenhagen Consensus Centre calculated that spending relatively small amounts each year on a peacekeeping intervention can significantly diminish the occurrence of further conflict, making it a highly cost effective way to reduce expenditure on further military activity.²⁵ Given the massive costs associated with war, the study revealed that the greater the amount spent on peacekeeping initiatives the greater the reductions in global military spending. The authors suggest that if security forces are kept at optimal levels, the financial gains – in terms of preventing further conflict and promoting economic growth – could be up to 39 times more than the cost of peacekeeping.²⁶

A further important measure under consideration is the regulation of armaments through an international Arms Trade Treaty (ATT) which could crack down on the illicit trade and introduce greater transparency in the import and export of conventional arms. According to civil society advocates, an effective treaty could stop transfers of arms and ammunitions that fuel conflict, poverty and serious violations of human rights and international humanitarian law.²⁷ After six years of protracted negotiations, more than 170 countries began negotiating a treaty at a UN conference in July 2012 that failed to produce a final text, although hope still remains for a legally-binding treaty to be agreed at the UN General Assembly in late 2012.²⁸

As a first step toward reducing armed conflict and war, all governments must introduce substantial reductions to their military spending budgets. Redirecting these freed up financial resources can not only fund international efforts to end poverty, but also enable member states to immediately furnish the UN with the \$2bn they owe the Department of Peacekeeping Operations (DPKO).²⁹ With simmering tensions in the Middle East and the increasing prospect of further global conflict, it is essential that civil society continues to mobilise ardently against warfare and the use of military force as a means of achieving foreign policy objectives.

Box 11:

War is big business

Since George W. Bush told the United Nations that you are either “with us or against us in this fight against terrorists,” the post-9/11 world has entered an uncharted era of conflict and tension. The reality of war may well parallel the history of human civilization, but we now live in an age of increasing global militarisation, the ongoing proliferation of nuclear weapons, and the threat of pre-emptive conflicts in the name of security.

History is in many ways defined by the evolution of mercantilism, colonialism and imperialism, or the ‘plunder by trade’ of stronger countries that sought the conquest of less developed nations. All empires since the Roman era were based on the expansion of societies through financial, technical, and military superiority in order to control more of the earth’s wealth and technology. Today, the unequal trading relationship between resource-poor wealthy nations and resource-rich impoverished nations remains central to an understanding of heightening global warfare.³⁰

A major factor in the military policies of many governments is the growing impact of resource scarcity. In particular for the world’s reigning superpower, the need for

a vigorous military role in protecting energy assets abroad has been a presiding theme in American foreign policy since 1945. The US continues to officially maintain 662 military bases in 38 countries around the world (though unofficial estimates are far greater),³¹ and spent over \$711bn on military expenditures in 2011 alone – a sum larger than the gross domestic product of most countries.³² According to Michael T. Klare, Professor of Peace and World Security Studies and author of ‘Resource Wars’, no strategic objective has so profoundly influenced American military policy as the determination to ensure US access to overseas supplies of vital resources. Since the end of the Cold War, almost every major government has assigned a greater strategic significance to economic and resource concerns. The result is a new global landscape in which competition over vital resources is becoming the governing principle behind the disposition and use of military power.³³

The military-industrial complex

It was President Eisenhower, in his final address to the nation in 1961, who coined the phrase ‘military-industrial complex’ to forewarn of an overbearing relationship between the economy, big business and war. Some commentators now use the expression ‘military-industrial-congressional complex’ to reference the interplay of large military corporations and politics in the phenomenal war machine of America. Even if no serious economist would hold the view that war is good for the economy, the US is tellingly the largest military producer, spender and employer, as well as the leading exporter of arms to the developing world.

A largely invisible yet powerful bastion of commercial forces now dominate the policies of economically-advanced states and push governments towards increased foreign aggression and military adventurism. The US-led invasion of Iraq in 2003 has become the most flagrant example of corporate involvement in war. Within months, private military contractors penetrated western warfare so deeply that they became the second biggest contributor to coalition forces after the Pentagon. The private sector, often involved in the most controversial aspects of warfare such as the Abu Ghraib prisoner abuse scandal, is now an integral part of US military might.

The opening of new markets to foreign-owned multinational companies in the aftermath of war is widely described as a form of ‘economic colonisation’ to advance the ideological agenda of globalisation. The strongest economies of today view economic and security interests as inextricably linked, which in the case of Iraq involved fundamentally altering its economic laws to US corporate advantage. Many state-owned entities were rapidly privatised and trade restrictions were suspended in order to facilitate the dramatic inflow and outflow of goods, services and natural resources for the benefit of overseas businesses.³⁴

The growing gulf between rich and poor in both developed and developing nations – a phenomenon largely ascribed to corporate globalisation – is commonly acknowledged as a key reason for the growth in demagogues, fundamentalists and extremists who threaten mass terrorism in the economically-advanced countries. Even in the grip of an economic downturn, the average purchasing power of the bottom 10% of Americans remains higher than around two-thirds of the rest of the world’s population.

Almost any war, armed struggle or sectarian clash can be traced to its economic roots. The choice facing humanity in the twenty-first century is whether to continue along the road of international competition for wealth and power, or to share the world’s resources more cooperatively and secure basic human needs for all. Such a strategy – based on international cooperation and economic sharing rather than acquisition and the use of force – would naturally acknowledge the underlying cause of conflict and dramatically reduce the prospect of future global warfare.

Learn more and get involved

Campaign Against Arms Trade (CAAT): A UK-based campaign to end the deadly and corrupt business of the international arms trade. <www.caat.org.uk>

Campaign for Nuclear Disarmament: Working to secure an international Nuclear Weapons Convention which will ban nuclear weapons globally, among many other campaigns. <www.cnduk.org>

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4. Stop tax avoidance

Strengthening tax systems in countries around the world remains the most pragmatic way for nations to share their financial resources more equitably and protect the poor and vulnerable.

A global super-rich elite currently hold up to **\$32tn** of untaxed private wealth in tax havens, almost a third of which is amassed by developing countries.

This excessive leakage of revenues could be significantly reduced through the implementation of more effective international regulations for cooperation, transparency and accountability on tax issues.

As a minimum step toward ending all forms of global tax avoidance, clamping down on tax havens and preventing corporate trade mispricing could raise more than **\$349bn** globally each year.

Preventing illegal tax evasion, strengthening tax systems in the Global South and adopting more progressive taxation policies in rich countries could raise billions more dollars of government revenue each year.

As harsh policies of economic austerity impact on employment opportunities, public services and poverty across the world, the call for a fairer redistribution of wealth and income is fast becoming the mantra for those seeking economic justice.

Taxation – particularly on profits, bank interest and wages – is an essential prerequisite for ensuring a fair distribution of financial resources within a nation and reinforcing the sharing economy. In a period when inequality and financial insecurity continues to grow on a global scale, the prevention of tax avoidance by wealthy individuals and corporations must constitute an urgent priority for governments in both industrialised and developing nations.

On average, 37% of government revenue in rich countries comes from taxes levied on the wealth and income of individuals and businesses.¹ The level and type of taxation applied and the subsequent redistribution of these revenues largely determines how effectively a government is able to safeguard the basic needs of its citizens, reduce inequality and meet its broader international development commitments.

Analysts have long considered strengthening tax systems in the Global South as the preferred way of financing poverty reduction. ActionAid has calculated that developing countries could raise an additional **\$198bn** each year by ensuring that 15% of government revenues come from taxes.² Increasing national tax incomes has also become a key point of debate across Europe and the United States in recent years, as gaping holes in public finances and the widespread implementation of austerity measures has renewed public interest in ‘tax justice’.

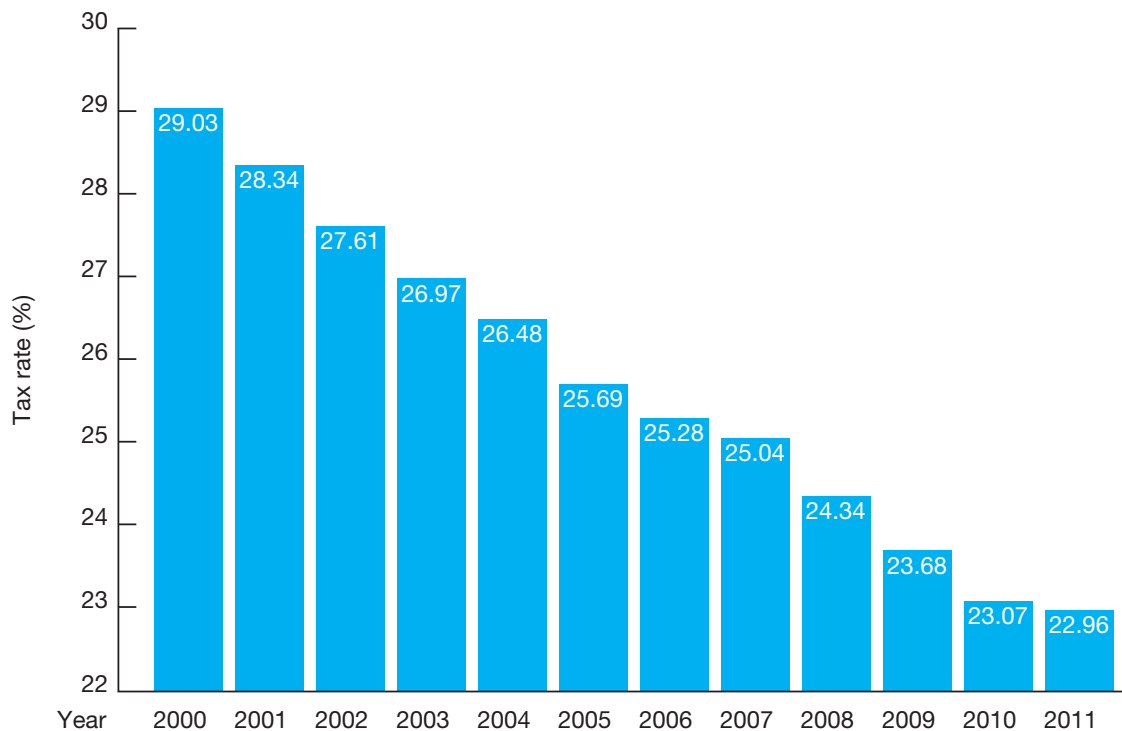
Tax avoidance by wealthy individuals and multinational corporations – legitimised by national and international tax rules, and facilitated by a global network of highly secretive tax havens – means governments often fail to benefit from this much needed source of public revenue. According to new ground-breaking research into financial assets held offshore, it is conservatively estimated that governments are losing tax revenues of **\$189bn** per year as a consequence of funds being invested in tax havens by 10 million individuals around the world.³ Oxfam has estimated that developing countries alone could be losing up to **\$124bn** annually owing to the use of tax havens by the super-rich.⁴ During the last decade, tax havens helped facilitate the illicit flow of an estimated **\$6.5tn** out of wealthy countries, the majority of which occurred through the manipulation of profits and costs by multinational corporations, a practice known as trade mispricing [see box 12].⁵

The global tax consensus

This massive loss of income is exacerbated by a global ‘tax consensus’ widely promoted by multilateral agencies such as the International Monetary Fund and World Bank over recent decades. In the global competition to attract foreign direct investment, governments are pressured to offer low tax rates and incentives to multinational corporations (MNCs). This creates a ‘race to the bottom’ in which MNCs are able to play governments off each other in order to secure the biggest tax breaks, in return for the questionable benefits of increased productive investment in the host country [see box 12].

As a result of driving down corporate tax rates, governments in both the North and South have failed to ensure that high-income earners and large corporations contribute more to

Figure 7: Average global corporate tax rates 2000–2011



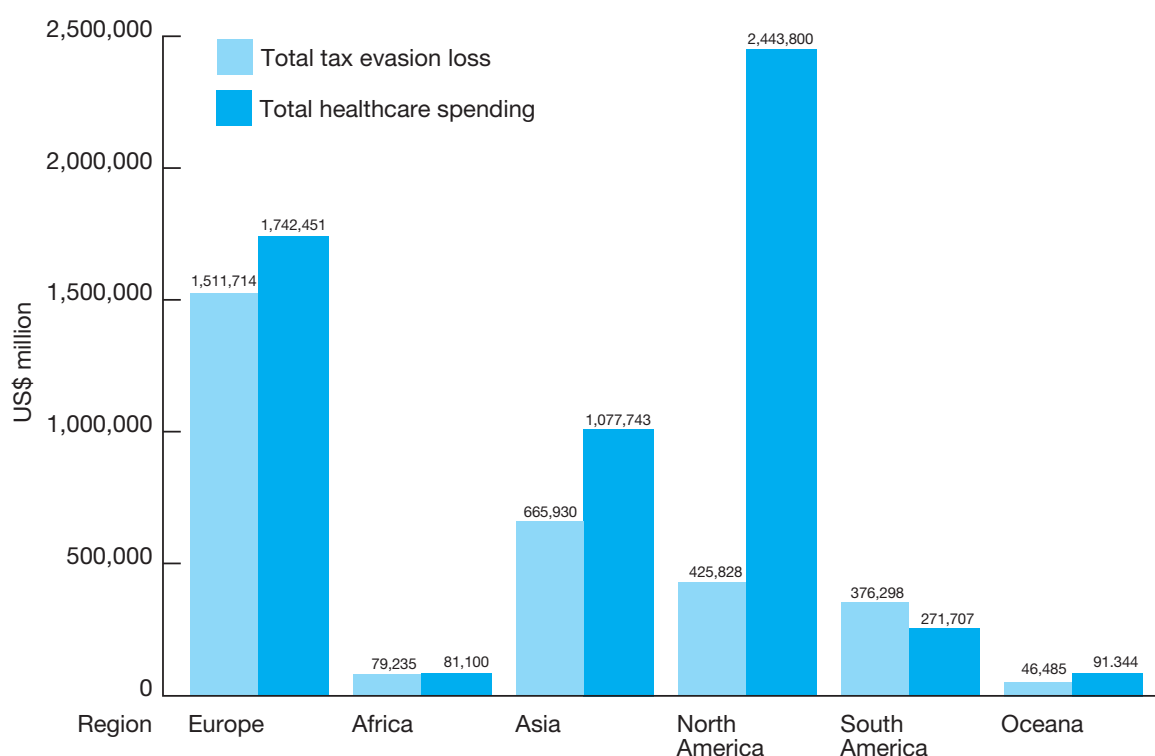
Source: KPMG International, Corporate and Indirect Tax Survey 2011, pp. 58-9.

the public purse than ordinary tax payers on lower incomes. This is of particular concern in developing countries where the downward pressure on corporate tax revenues is generally more marked than in developed countries.⁶ Since developing countries tend to rely more heavily on tax revenues to finance essential welfare services, the impact of international tax competition can seriously impede their domestic sources of financing – especially when combined with reductions in custom revenues as a consequence of free trade agreements [see section 10].

Corporate tax avoidance is big business and CEO rewards for facilitating it are still on the rise. A recent study found that 280 of the most profitable corporations in the US avoided a staggering \$223bn in federal taxes over a period of three years, with more than half of this total ‘tax subsidy’ going to just 25 companies.⁷ Another report found that 25 major US corporations paid more compensation to their CEOs than they paid in federal taxes, and five of these had a total of 267 subsidiaries registered in tax havens. On average, the remuneration for CEOs of major US corporations was 325 times the typical income of American workers.⁸ Similarly, only a quarter of French multinational corporations, and a third of those based in the UK, paid tax in their respective countries.⁹

Unlike tax avoidance activities which legally exploit tax loopholes, tax evasion activities involve the illegal non-payment or under-payment of taxes and are subject to criminal or civil legal penalties. Research published by the Tax Justice Network examined the prevalence of ‘shadow economies’ around the world where economic activity takes place illegally without taxation, including through the use of tax havens. The report found that if governments ended tax evasion globally, an additional \$3.1tn could be made available for public spending annually – equivalent to 5% of global GDP. In most countries, the losses from tax evasion are almost equivalent to the total amount spent on healthcare [see figure 8].¹⁰

Figure 8: Healthcare spending compared to tax evasion by world region



Source: Tax Justice Network, The cost of tax abuse: A briefing paper on the cost of tax evasion worldwide, November 2011, p. 3.

The urgent need to ensure tax rules are more effectively enforced was reiterated by the European Parliament in March 2011. In a resolution on innovative financing at the global and European level, it estimated that the cost of tax fraud in Europe is between €200-250 (\$270-\$330) annually.¹¹ More recently, the Organisation for Economic Cooperation and Development (OECD) estimated that up to \$100bn could be made available to G20 nations if tax evasion was prevented.¹²

Taxation as sharing

Preventing the excessive leakage of revenues through tax evasion and avoidance is perhaps the first and most important step governments can take to secure additional financial resources and strengthen the sharing economy. The implementation of more effective international regulations for cooperation, transparency and accountability on tax issues would have a huge impact on tax incomes in both developing and developed countries. Such measures include the sharing of information and tax data between countries, the disclosure of the true beneficial owners of companies, and a 'country-by-country reporting' standard for multinational corporations to ensure they are being taxed appropriately when operating in multiple countries.¹³ The principle of 'unitary taxation', which enables subsidiaries of corporations in different countries to be treated as a single entity for tax purposes, would also make avoidance far more difficult.¹⁴

Strengthening tax systems is particularly important in developing countries if they are to channel additional finances into social services and public investments, and eventually end indebtedness and aid dependence. Not only does tax play a fundamental role in redistributing wealth to reduce poverty and inequality, the role of tax in strengthening government accountability is increasingly recognised as a crucial part of democratic state building.¹⁵ By its very nature, taxation is redistributive and one of the most effective tools available to governments for sharing financial resources more equitably among citizens.

Table 2: How much revenue are governments losing?

Example	Estimated additional annual income
Ending tax evasion	\$3.1tn (globally) \$100bn (G20 nations)
Closing tax havens	\$189bn (globally) \$124bn (developing countries)
Ending trade mispricing and false invoicing	\$160bn (developing countries)
Strengthening domestic tax collection	\$198bn (developing countries)
Preventing tax evasion and fraud	\$330bn (Europe)
Preventing tax avoidance by rich individuals and the 700 largest corporations	\$38bn (UK)
Higher income tax brackets for the wealthy; fairer taxes on inheritance and income from dividends and capital gains	\$190bn (US)

Note: See text for references.

There is a clear understanding of what both rich and poor countries should aim towards: broad-based tax systems that redistribute wealth by seeking to levy more taxation on those with a greater ability to pay; the taxing of capital and resource consumption, rather than applying more regressive taxes such as VAT; and the effective taxation of multinational corporations. These are essential components in the creation of more just and equal societies, and must be staunchly advocated for by concerned citizens in all countries.

How much revenue could be mobilised

Ending all forms of tax evasion and avoidance globally is a tall order, but has the potential to increase government revenues around the world by many trillions of dollars each year. Similarly, strengthening tax systems in the Global South and adopting more progressive taxation policies in rich countries could raise substantial additional revenues [see table 2].

As a minimum, it is high time that governments clamp down on the use of tax havens by high-net-worth individuals and prevent the practice of tax avoidance by multinational corporations [see box 12]. According to conservative calculations, these measures alone could raise an annual sum of more than **\$349bn** globally which could be used by governments to safeguard the basic needs of citizens, reduce inequality, fight climate change and meet broader international development commitments.

- Preventing high-net-worth individuals from investing their assets in tax havens could raise an additional **\$189bn** annually in tax revenue globally.¹⁶
- Preventing multinational corporations from using trade mispricing and false invoicing to artificially boost their profits would secure an additional **\$160bn** annually for developing countries.¹⁷

Table 3: Capital flight from developing countries: the top 10 losers

Country	Cumulative capital flight (US\$bn) 1970s–2010*
China	1,189
Russia	789
South Korea	779
Brazil	520
Kuwait	496
Mexico	417
Venezuela	406
Argentina	399
Indonesia	331
Saudi Arabia	308

Source: 'Wealth doesn't trickle down – it just floods offshore, research reveals', The Guardian, 21st July 2012 / Tax Justice Network.

* China: 1980s–2010; Russia: 1990s–2010.

Box 12:

Tax avoidance around the world

Tax havens enable wealthy individuals and corporations to invest their funds in relative secrecy by using 'off-shore' virtual financial centres outside of national jurisdictions. As normal regulations don't apply in tax havens, investors are able to avoid paying taxes on these investments, depriving governments all over the world of many billions of dollars in revenues each year.

There could be more than 80 'secrecy jurisdictions' worldwide, and it is estimated that around a half of all world trade and all banking assets and a third of all corporate investment passes through these tax havens.¹⁸ In the US, multinational corporations and banks are avoiding at least **\$37bn** in taxes every year through tax havens alone.¹⁹ At the same time, the Tax Justice Network conservatively estimate that a global super-rich elite held between **\$21 to \$32tn** of private financial wealth in offshore bank and investment accounts by the end of 2010, a figure that far exceeds previous estimates.²⁰ Of this extraordinary amount, up to \$9.3tn of unrecorded offshore wealth was amassed by 139 developing countries – more than double their \$4tn external debt.²¹ The implications in terms of lost tax revenue are immense, even by the most conservative of calculations. If the same funds were not invested in tax havens, this unrecorded wealth could have generated tax revenues of at least **\$189bn** per year, more than twice the \$86bn that OECD countries as a whole are now spending on overseas development assistance.²²

Tax havens also facilitate corruption by providing an efficient way for individuals, criminal organisations and corporations to hide the proceeds of illicit activities. The looting of mineral resources in African countries like the Democratic Republic of Congo is one such example. A report by Global Financial Integrity calculated that, for developing countries alone, cross-border flows from the proceeds of criminal

activities, corruption and tax evasion have increased by 18% since 2000 to \$1.26tn per year by 2008.²³ The impact on poverty eradication and development prospects in the South is devastating; for every dollar of aid they receive, developing countries are robbed of close to \$10 through illicit financial flows.²⁴ While tackling tax havens will not end corruption, it will hamper the ability of powerful elites to transfer illegally acquired funds into bank accounts abroad.²⁵

Corporate trade mispricing

As part of their relentless drive to maximise profits and shareholder returns, MNCs do whatever they can to avoid paying taxes. As much as two thirds of all international trade occurs within units of the same corporation, and their ability to operate in multiple countries through numerous subsidiary companies enables them to manipulate their costs internally in order to minimise tax payments.²⁶ Goods are bought and sold between subsidiaries of the same company in a way that shifts profits to countries where zero or nominal taxes are payable (such as tax havens), while costs are shifted to countries with higher tax rates so that they can offset taxable profits.

Transfer pricing accounts for as much as 60% of all corporate tax avoidance in some countries.²⁷ Examples include ballpoint pens valued at \$8,500 each from Trinidad, or apple juice from Israel valued at \$4,121 a litre.²⁸ Most instances of mispricing are not so extreme, but this dishonest practice allows MNCs to avoid paying over \$100bn in taxes to developing countries each year.²⁹ Publish What You Pay report that over \$110bn 'disappeared' through the mispricing of crude oil alone in the US and EU between 2000 and 2010.³⁰

Corporations often combine transfer pricing with 'false invoicing' and 're-invoicing' as a means to further maximise profits.³¹ This occurs between unrelated corporations who collude with one another to fix the price of goods and services traded between them, enabling each to minimise their tax losses. Together, these illicit practises are sometimes referred to as 'trade mispricing' which Christian Aid estimates can deprive developing countries of up to **\$160bn** a year.³²

Regressive tax policies

Recent decades have seen a significant decrease in how much governments around the world are willing to tax corporations and wealthy individuals. KPMG's annual corporate and indirect tax surveys reveal that official corporate tax rates reduced from 38% in 1993 to 24.9% in 2010.³³ At the same time, governments are increasingly offering significant tax incentives as a way of attracting more foreign direct investment. These can include tax exemptions, tax holidays, or even the creation of 'special economic zones' which provide an extensive range of tax breaks to large foreign companies over a number of years, often at the expense of local businesses. There is now sufficient evidence to suggest that many of these incentives impact negatively on development, and their ability to attract investment can be severely undermined by the resulting loss of tax revenues.³⁴ Evidence also suggests that these subsidies are largely unnecessary, ineffective in attracting foreign direct investment, and can distort investment patterns.³⁵

Over the last few decades, much of the wealth generated from economic growth in developed countries has concentrated in the hands of the rich, whereas the tax burden has shifted towards those on lower incomes. Households in the US with incomes of \$1m or more pay only 23% of their incomes in tax, almost half as much as they did in 1961. While the population in the US has grown by 70% over the same period, the number of people earning over a million dollars has increased by almost 1,000%.³⁶

Demanding international tax justice

The issues of tax avoidance and illicit financial flows have become a major priority for civil society campaigners in recent years. In the wake of the global financial crisis in 2008, many NGOs began focusing on global tax justice as a solution to proposed cuts in public spending in the North, as well as being an avenue for developing countries to end indebtedness and finance poverty eradication from their own resources.

A breakthrough was made at the London G20 Summit in April 2009 when Gordon Brown pledged to crack down on tax havens that siphon off money from developing countries. Moves to combat tax evasion have since intensified after the Organisation for Economic Cooperation and Development (OECD) published a black list of tax havens, which paved the way for the naming and shaming of countries that fail to comply with internationally agreed standards.³⁷ More recently, legislation called The Stop Tax Haven Abuse Act was re-introduced in the US Congress which could help combat offshore secrecy, tax evasion and corruption.³⁸ The European Commission has also made a proposal for country-by-country reporting for extractives industries,³⁹ as well as a proposal for a Common Consolidated Corporate Tax Base which could be adopted in 2012.⁴⁰

International cooperation on tax

Following the G20 Summit in Cannes in November 2011, however, many campaigners have expressed disappointment in the lack of progress in fighting tax evasion at the G20, OECD or European Union. According to a scorecard rating the G20 on tax issues by a coalition of NGOs, its 2009 commitments have been translated to decisive action on only one of 12 suggested actions, with tentative progress on only three other issues.⁴¹ Although the European Union and OECD have developed tools to combat tax evasion and other harmful tax practices, they have clearly not put an end to the problems. These institutions may represent significant experience in the field, but they work primarily for their members, mostly the rich countries, and do not reflect many of the more comprehensive demands of civil society groups.

Furthermore, many countries still refuse to make details of individuals' financial worth available to the tax authorities in their home countries as a matter of course.⁴² The OECD in particular is seen to lack legitimacy as too many of its prominent members are tax havens, leading to calls for a more inclusive and representative global forum at the United Nations. Some 50 civil society organisations have called on governments to create an Intergovernmental Commission on International Cooperation on Tax Matters to protect nations – particularly the least developed – from abusive practices, including evasion and the race to the bottom in corporate taxation.⁴³

Reinforcing domestic tax systems

On the domestic front, there have been signs that a shift towards more progressive taxation policies is occurring in the face of severe sovereign debt crises in some industrialised countries. In August 2011, the American billionaire Warren Buffet and a group of France's wealthiest individuals made news headlines by calling on their governments to tax the rich at higher rates in order to help plug the budget deficit in both countries.⁴⁴ Several countries have debated the introduction of new so-called wealth taxes – a levy on a person's net worth – to help spread the burden of financial austerity. Spain has already reintroduced wealth tax legislation for those with over €700,000 in assets.⁴⁵ In the US, the Fairness in Taxation Act was introduced in March 2011 by Representative Jan Schakowsky, which would add five additional tax brackets for income over \$1m and generate \$60-80bn a year if passed.⁴⁶ During the Presidential elections in France in early 2012, François Hollande even proposed a marginal tax rate of 75% on incomes over €1m a year – a level far in excess of top rates elsewhere in Europe.⁴⁷

Not all trends are going in the right direction, however, as highlighted by the UK government's plans to drastically cut corporation tax and to controversially water down anti-tax haven rules – measures that could cost the UK, as well as developing countries, many billions of dollars.⁴⁸ There is clearly still a long way to go when corporate tax evasion alone continues to cost developing countries more than they receive in official development assistance. Yet the current financial crisis presents civil society with an unprecedented opportunity to communicate the importance of robust and progressive tax systems to policymakers and the wider public. The call for tax justice, both nationally and globally, represents the single most practical way for governments to raise the resources needed to reduce wealth disparities and end poverty in developing countries.

Learn more and get involved:

Citizens for Tax Justice: A public interest research and advocacy organization focusing on federal, state and local tax policies and their impact upon the United States. <www.ctj.org>

Closing the Floodgates: A major report with the most comprehensive review ever published of the nature and scale of the tax problem, and a series of recommendations for how governments and international agencies might tackle them. Published by the Tax Justice Network in 2007. <www.taxjustice.net/cms/upload/pdf/Closing_the_Floodgates_-_1-FEB-2007.pdf>

End Tax Haven Secrecy: A coalition of organisations campaigning from around the world, brought together to end tax haven secrecy for the benefit of the world's poorest. <www.endtaxhavensecrecy.org/en>

The Financial Secrecy Index (FSI): A ranking which identifies the jurisdictions that are most aggressive in providing secrecy in international finance, and which most actively shun co-operation with other jurisdictions. Developed by the Tax Justice Network. <www.financialsecrecyindex.com>

Offshore Watch: A forum for discussion and analysis of offshore tax havens, provided by the Association for Accountancy and Business Affairs. <visar.csustan.edu/aaba/jersey.html>

Publish What You Pay (PWYP): A global network of civil society organisations that are united in their call for oil, gas and mining revenues to form the basis for development and improve the lives of ordinary citizens in resource-rich countries. <www.publishwhatyoupay.org>

Tackletaxhavens.com: A major programme designed by the Tax Justice Network to raise public awareness of tax havens: what they are, the damage they do and how we can tackle them together. <www.tackletaxhavens.com>

The Task Force on Financial Integrity and Economic Development: A coalition of civil society organizations and more than 50 governments working together to address inequalities in the financial system. <www.financialtaskforce.org>

Tax Havens – How Globalization Really Works: An up-to-date evaluation of the role and function of tax havens in the global financial system – their history, inner workings, impact, extent, and enforcement. Published by Cornell University Press, 2010, and written by Ronen Palan, Richard Murphy and Christian Chavagneux.

Tax justice advocacy toolkit: An interactive tool that can be revised and improved according to new findings on tax justice issues. See also the major report published by Christian Aid and SOMO in January 2011. <www.taxjusticetoolkit.org>

Tax Justice Network: Formed in 2003, TJN promote transparency in international finance and oppose secrecy through high-level research, analysis and advocacy in the field of tax and regulation. <www.taxjustice.net>

Trace the Tax campaign: Tax rules explained in a two-part video as part of Christian Aid's campaign to end tax haven secrecy. <www.christianaid.org.uk/ActNow/trace-the-tax/background.aspx>

Treasure Islands: A book published in 2011 by Nicholas Shaxson about dirty money, tax havens, and the "most secretive chapter in the history of global economic affairs". <www.treasureislands.org>

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5. Increase international aid

Official Development Assistance (ODA) is the main mechanism currently used by the international community for sharing financial resources globally, but it is severely compromised by the self-interest of donor countries and often fails to contribute to long-term development.

Although the quality of aid is in need of extensive reform, the quantity of aid donated is still enormously insufficient. Increasing ODA to 1% of GNI in the short term could raise an additional **\$297.5bn** per year, much more in line with the urgent needs of developing countries.

Foreign aid is dwarfed by the net flow of financial resources from the Global South to the North, which undermines its effectiveness in producing any significant degree of redistribution to developing countries.

Ending poverty will ultimately require helping low-income countries to develop their tax and social protection systems, alongside extensive reforms of the global economy to distribute wealth and power more equally between and within countries.

Despite decades of repeated commitments by donor countries, attempts to share even a tiny fraction of their financial resources with poorer nations remain inexcusably feeble and highly problematic.

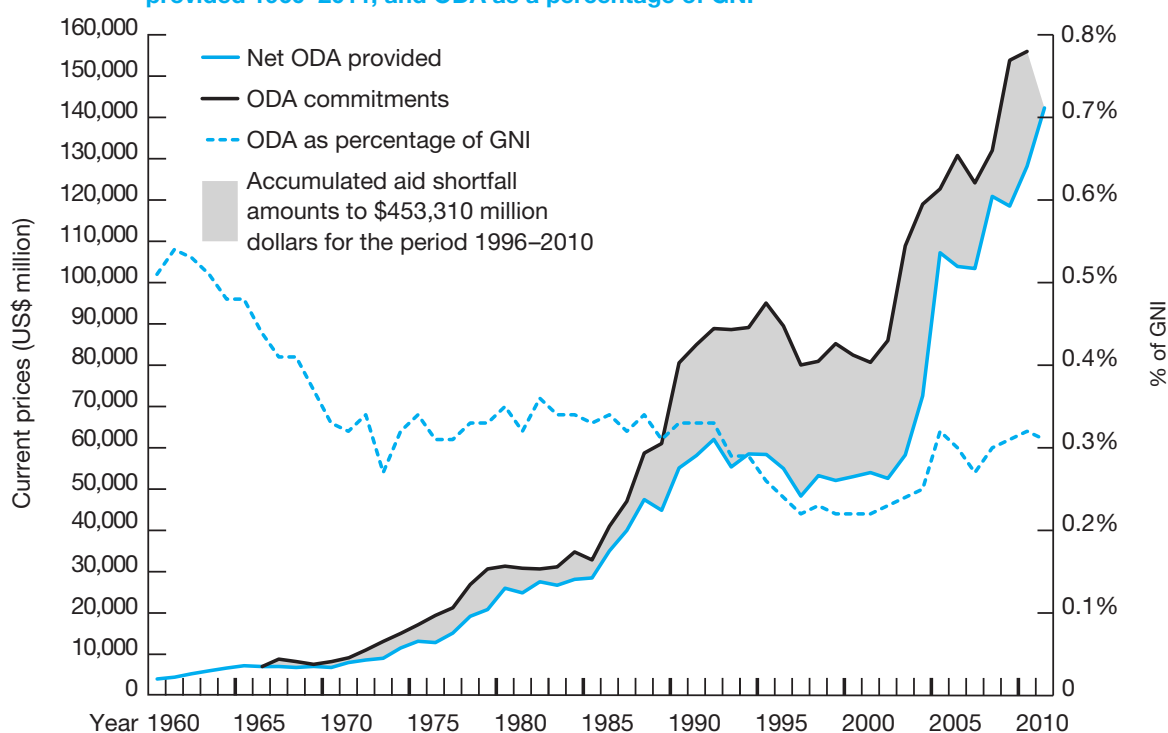
It is widely acknowledged that development aid does not constitute a sustainable solution to poverty eradication, which urgently requires extensive reforms to the global economy so that wealth and power is more equally distributed between and within nations. But if systems of aid are adequately reformed and the quantities donated substantially increased, Official Development Assistance (ODA) could play a much greater role in saving lives and helping people to lift themselves out of poverty.

In recent history, the practice of sending aid to overseas countries began with reconstruction efforts after the Second World War when the United States initiated a large-scale program to help rebuild Europe known as the Marshall Plan. Against a background of decolonisation and 'under-development' in the Global South, the World Bank published a report by the Pearson Commission in 1969 that reviewed the past 20 years of development assistance. The report recommended that official aid should be equivalent to 0.7% of the gross national income (GNI) of donor countries, and that both the government and private sector should supplement this with additional finance to ensure total assistance equalled 1% of GNI.¹ In 1970, the UN General Assembly adopted a Resolution including the goal that each advanced country will progressively increase its ODA and exert its best efforts to reach a minimum net amount of 0.7% of its GNI by the middle of the decade.²

More than 40 years later, this target continues to beleaguer donor countries whose combined donations of aid still average less than half of the universally-agreed target [see figure 9]. The pledge has been regularly reiterated at various high-level international fora, including the International Conference on Financing for Development in Monterrey in 2002. Following the high-profile 'Make Poverty History' campaign in 2005, G8 leaders again committed to significant increases in aid during their Gleneagles Summit, including a pledge to double aid to Africa. Yet only 61% of the promised increases to sub-Saharan Africa were delivered by 2010 when the commitments were due to be met, at a time when millions more people were being pushed into poverty by the food and financial crises.³

In 2011, donor countries provided \$133.5bn of net ODA, representing 0.31% of their combined gross national income – a drop of nearly 3% compared to 2010, and the first overall decrease for 14 years.⁴ This represented a fall in real terms (inflation-adjusted) of \$3.4bn, an amount that Oxfam calculated would be enough to provide a full year of treatment for half of the children infected with HIV.⁵ In some OECD countries such as Italy, Japan and the United States, the current rate of ODA is lower than 0.2% of GNI.⁶ By failing to meet their long-standing commitment to donate 0.7% of GNI, rich countries deprived the developing world of over **\$167.5bn** in 2011 alone.⁷ Although rich countries have donated over \$3tn in ODA since 1970, the accumulated total shortfall in aid since 1970 (when the target of 0.7% was set) amounts to over \$4.37tn. The total aid delivered over this period is therefore less than half of the promised amounts.⁸ On current trends, donors will not collectively hit the 0.7% target for a further 50 years, until 2062.⁹

Figure 9: Accumulative difference between official ODA commitments and ODA provided 1960–2011; and ODA as a percentage of GNI



Source: OECD online statistics database, April 2012.

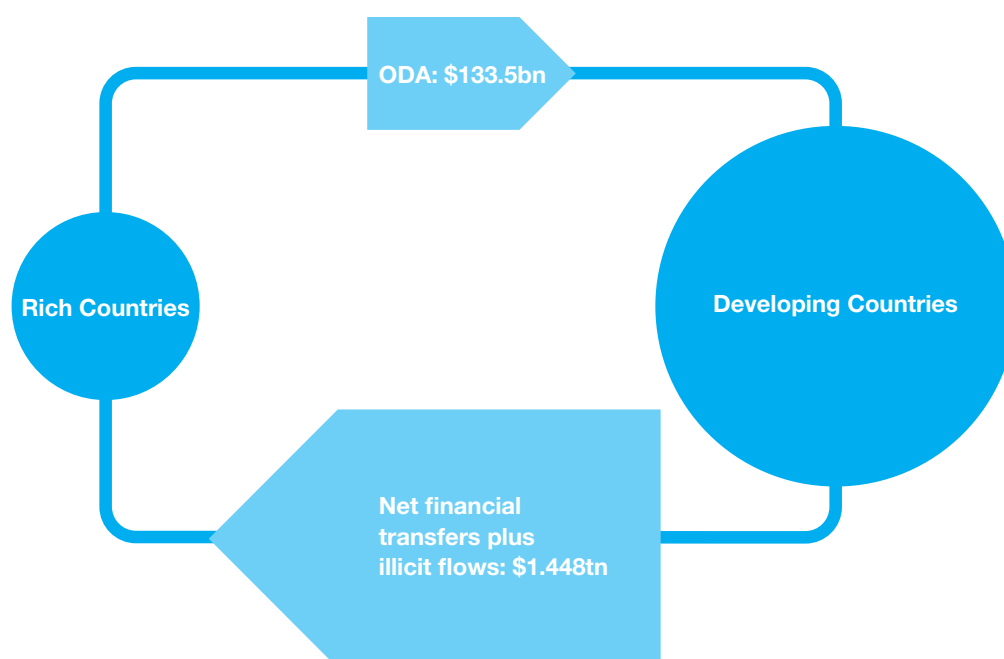
In stark comparison, rich countries mobilised \$12tn within the space of a few months to bail out a small number of banks during the global financial crisis of 2008. ODA is also dwarfed by the flow of financial resources from the Global South to industrialised countries in the North. According to estimates from the UN, developing countries as a group provided a net transfer of \$545bn to developed countries in 2009.¹⁰ This net outflow is further exacerbated by illicit capital flows from developing countries to the rich world that totalled \$903bn in the same year, which includes efforts to shelter wealth from tax authorities and the transfer of money earned through various illegal activities.¹¹ In comparison to these enormous waves of capital being haemorrhaged from poor to rich countries, development aid is rendered futile in producing any significant degree of net global redistribution [see figure 10].

Global redistribution

Many analysts argue that modern development assistance is essentially a form of neo-colonialism, and there is widespread agreement that the international aid architecture must be significantly reformed to address its inherent flaws.¹² It is now well recognised that long-term dependency on ODA can be detrimental to developing nations, and more ODA needs to be directed to helping poorer countries to develop and manage their own economies [see box 13].

Despite these entrenched problems, foreign aid is one of the only mechanisms used by the international community to redistribute financial resources to developing countries.¹³ Given that at least 41,000 people die every single day from poverty-related deaths globally,¹⁴ it is clear that ODA has a real potential to save lives and help prevent extreme deprivation. Although aid alone cannot resolve the problem of poverty or redress the extreme imbalance of wealth in the world, it must be reformed and strengthened in the immediate term until it can eventually be replaced by more effective and genuinely redistributive global arrangements in the future.

Figure 10: The flow of money between rich and poor countries



Note: In 2009, net financial transfers totalled \$545bn and estimated illicit flows were \$903bn.

Source: UN Department of Economic and Social Affairs, Global Financial Integrity and OECD [see text for references].

There can be no justification for advanced economies redistributing so little of their national incomes to assist those living in extreme poverty around the world. Not only is it entirely feasible for donor countries to give 0.7% of their GNI in official aid, the target could be significantly increased to bring it more in line with urgent requirements. Some European countries have set credible timetables for reaching the 0.7% target by 2015, but Luxembourg, Denmark and the Netherlands have already exceeded the 0.7 target, while Sweden and Norway donate 1% or more of their GNI [see table 4].¹⁵

In the wake of a global economic crisis that is exacting a disproportionate blow on poor people and the finances of low-income countries, a more generous vision of international aid is sorely needed. If all donor countries committed 1% of their income to development assistance, aid flows would more than triple to almost \$431bn a year, raising an additional **\$297.5bn** annually – a figure more commensurate with the pressing requirements of many developing countries today.¹⁶ After more than forty years of failed commitments on aid, civil society must continue to demand that rich nations reform the way aid is donated and used, and call on donors to make the redistribution of at least 1% of their national incomes an integral part of government policy in the immediate term.

Table 4: How generous are we?

Net official development assistance as a percentage of Gross National Income from DAC countries in 2011 (%)	
Greece	0.11
Korea	0.12
Japan	0.18
Italy	0.19
United States	0.20
Austria	0.27
New Zealand	0.28
Spain	0.29
Portugal	0.29
Canada	0.31
Australia	0.35
Germany	0.40
France	0.46
Switzerland	0.46
Finland	0.52
Ireland	0.52
Belgium	0.53
United Kingdom	0.56
Netherlands	0.75
Denmark	0.86
Luxembourg	0.99
Norway	1.0
Sweden	1.02

Source: OECD data for 2011.

How much revenue could be mobilised

The following estimates are based on OECD Official Development Aid figures for 2011 when donor countries gave a total of \$133.5bn in ODA, equal to 0.31% of combined GNI of DAC member countries.

- Increasing ODA to 0.7% of GNI (\$301bn) would raise an additional **\$167.5bn** each year.¹⁷
- Increasing ODA to 1.0% of GNI (\$430.6bn) would raise an additional **\$297.5bn** each year.¹⁸

What's wrong with international aid?

Development aid remains a highly problematic way of redistributing financial resources, mainly as a consequence of the self-interest of donor countries and the way in which aid is administered and used. Some of the main criticisms of Official Development Assistance (ODA) include:

- **Quantity:** Aid-giving remains voluntary, and there is no system in place on the international level to ensure that the amounts given equate to those needed. Rich country governments actually give less today as a share of their total wealth than they did 40 years ago (0.51% of GNI in the late 1960s, compared to around 0.3% today).¹⁹ There remains no guarantee that development assistance will be spent on the neediest people in the poorest countries, as demonstrated by the precipitous falls in aid to agriculture over the last 20 years despite the fact that most of the world's poorest live in rural areas. Donors have repeatedly pledged to increase their aid for more than 35 years, but no penalties are imposed by the international community when these promises are broken.²⁰
- **Conditionality:** Despite years of campaigning by pressure groups, the use of policy conditionality remains widely linked to aid disbursements. Conditions designed to induce policy change can have a broad-ranging impact on the functioning of the state, particularly through policies associated with trade liberalisation, the elimination of subsidies and privatisation. Although there are now donor-led processes attempting to increase the ownership of governments over their economic policy decisions (in particular the Poverty Reduction Strategy Paper approach led by the IMF and World Bank), rich countries continue to seek to influence developing country choices with the aid they provide. In 2009, the European Commission reported that only five European governments out of 27 had reduced the number of their policy conditions.²¹
- **Tied aid:** Some donors continue to tie aid to the use of goods and services in their own countries. This may involve directly buying preferential treatment for companies based in donor countries, or else using conditions to influence recipient country policy and make trade rules and the investment climate more suitable for domestic corporations. As much as 40% of all aid, excluding food aid and technical assistance, is still tied to commercial conditions despite donor commitments to untie all their aid to the least-developed countries. Italy and the USA are among the worst culprits, spending upwards of 70% of aid on domestic firms and organisations.²² Even countries that tie their aid only moderately, such as Germany and the Netherlands, receive significant returns from their aid donations. A study by Switzerland's foreign aid department suggests that for every 100 Swiss Francs spent on aid, the Swiss economy gets back about 160 Swiss Francs.²³
- **Phantom aid:** Many forms of assistance are included in official aid statistics which do not in fact contribute to improving the lives of poor people. This includes aid that is double counted as debt relief; billions of dollars that is spent on over-priced and ineffective technical assistance (outside expertise such as consultants, research and training); the aid spent on immigration-related spending in the donor country; excessive administration costs; or the resources lost through the costs to recipients of poor donor co-ordination.²⁴ According to the latest figures from ActionAid, still 45% of aid disbursed in 2009 was not 'real' aid that contributes to long term development.²⁵

- **Politically-motivated aid:** Political and strategic considerations are well known to determine key aid relationships, most notoriously for the US which continues to view USAID as a key plank of foreign policy and national security concerns.²⁶ During the Cold War period both bilateral and multilateral aid was openly driven by political interests, and former colonial relationships still strongly influence aid relationships today. The discourse on the geopolitical motivations for ODA tends to focus on two main issues; firstly, politically-driven aid is not necessarily going to the countries that need it most.²⁷ And secondly, self-interested political objectives mean that such aid by its nature is less effective at promoting growth and reducing poverty.²⁸
- **Problematic food aid:** The transfer of food items from one country to another for development purposes has declined in quantity and as a percentage of total aid in recent decades. However, this practice is still widely criticised for subsidising domestic interests in the donor country rather than helping the poor abroad.²⁹ A large proportion of food aid is tied to domestic procurement and shipping, particularly in the US – the world’s largest food aid provider.³⁰ The US also stands accused of using its food aid programme to push genetically modified foods on developing countries, and of trying to create future commercial markets by changing local tastes and preferences.³¹ Furthermore, direct transfers of food aid are often badly timed and risk pushing down prices and discouraging production in recipient countries, with severe effects on future food security.³²
- **Aid dependency:** In recent years, the discourse on ODA has increasingly focused on the problem of aid dependency. Many poor countries are considered dependent on aid when they require external assistance from donors to perform many of the core functions of the state, including the delivery of basic public services. Aid dependency is a major concern for the following reasons: it can result in a loss of policy space for governments to design and implement their own national development policies; it can undermine the social contract between citizens and the state, as governments are less accountable to ordinary people for delivering public services; and it can undermine the predictability of government spending and affect long-term planning, as aid flows are more volatile than revenues generated from domestic sources.³³ Figures suggest that aid dependency has fallen between 2000 and 2009, but still 30 of the less industrialised countries rely on aid for 30% or more of their expenditure.³⁴

Reforming and scaling up overseas aid

Until recently, there were some signs of progress in government commitments to increase the amount of ODA donated to poor countries, with aid levels reaching a historic high in 2010 following a long trend of annual increases. Of the 15 European Union countries that are members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC), eight of them surpassed a goal set in 2005 to allocate a minimum of 0.51% of their GNI to ODA by 2010.³⁵ Although serious doubts surround the effectiveness and relevance of the Millennium Development Goals (MDGs) framework for long-term poverty reduction, many analysts have argued that the MDGs helped to target aid more effectively and increase the focus on accountability among donors, especially at the G8.³⁶ According to calculations by ActionAid, the amount of ‘real’ aid provided by donors – that which is targeted at the poorest people and allows the

recipient country the space to lead its own development plans – has also increased, if only marginally, from 51% to 55% of total aid flows since 2006.³⁷

However, the ODA figures for 2011 cast a shadow over these marginally positive developments. NGOs expressed particular concern that aid has fallen to the world's 48 poorest countries, along with a fall in bilateral aid to sub-Saharan Africa – the poorest region of the world. Campaigners also said that “alarm bells should be ringing across Europe” following the confirmation that 12 EU countries have cut overseas aid, including some that have weathered the economic crisis more easily, such as Austria and France.³⁸ Cuts to aid budgets in Spain and Greece, where fiscal tightening policies are severe, were in the order of 40%. Although some EU countries managed to increase their aid, many countries are seeking to further reduce their ODA budgets this year, and it looks increasingly improbable that the EU will hit its official 0.7% target by 2015. For non-EU developed countries such as the US, Canada, Australia and New Zealand, such a target is a pipe dream judged by current standards.³⁹

A chronic lack of ambition

Notwithstanding the wider problems of aid effectiveness and the unequal power relationships between donor and recipient governments, the quantity of aid donated falls far short of the amount urgently needed to reach the MDGs – and will continue to be insufficient even if G8 donors meet all their existing and future promises on aid. Although the MDGs are widely considered to be grossly inadequate targets for ending poverty, it is also true that ‘good quality’ aid can make a real impact on poverty reduction, especially when provided in sufficient quantities. For example, if governments had provided all the aid they committed to in 1970, Oxfam calculated that extreme poverty could have been ended 22 times over – a prolonged failure they describe as the greatest missed opportunity in history.⁴⁰

Against the backdrop of a worsening global financial crisis and widespread austerity, there is a great risk that rich countries will continue to cut investments in effective programmes that benefit the world's poorest people. Many development organisations now fear that both public and political support for increased aid has passed its peak owing to the financial downturn and domestic austerity measures, as well as the perception that many developing countries are experiencing high economic growth and no longer need the same level of support. In the UK, the House of Lords economics affairs committee even published a report that called to abandon the 0.7% target for overall aid spending that was previously enshrined in legislation – with cross-party political support – in 2010.⁴¹

Aid advocates challenge these attitudes, however, particularly by pointing out that aid is a tiny part of national budgets and will have no discernible impact on deficits if cut.⁴² Public support for ODA also tends to rise when people are informed of how little governments actually spend on aid, compared to other priorities.⁴³ As many NGOs and development analysts maintain, life-saving programmes in poor countries are critically affected by reducing aid, especially when people in developing countries are struggling to cope with the impacts of the financial crisis.⁴⁴

Numerous reports and campaigns since the 0.7% UN resolution have advocated for an increase in official aid to 1% of GNI or more, including the influential proposal by the Brandt Commission in 1980 which also recommended an immediate and large-scale transfer of resources from North to South.⁴⁵ The Network of Spiritual Progressives go much further and advocate that the US government spends 1 to 2% of GDP on foreign aid for the next 20 years in order to eliminate poverty once and for all and heal the environmental crisis. If all the advanced industrialised countries committed to a ‘Global Marshall Plan’ along such lines, they estimate that the costs could reach 3 to 5% of world GDP.⁴⁶

Transforming the international aid architecture

Historically, concerned citizens have tended to focus on the need to increase only the quantity of aid provided by donors. Increasingly, however, civil society is mounting pressure on donors to improve the quality of their aid by freeing it from political and commercial interests, removing damaging conditions attached to its provision, and mitigating the negative impacts it can have on local communities and national development [see box 13].

Although governments have officially recognised the problems plaguing aid by signing up to the Paris Declaration on Aid Effectiveness since 2005, the process fails to give a meaningful role for southern countries in assessing donor progress towards a set of relatively weak targets.⁴⁷ Current reform initiatives by the OECD-DAC, United Nations, World Bank and other donors have failed to resolve the entrenched geo-political and commercial interests that prevent aid from realising its potential to forge a more equal, balanced and stable global system.

In the longer term, donors need to move beyond a ‘targeted’ approach to poverty reduction and embrace a more comprehensive and sustainable model of development based on universal social protection and nationally-anchored production and consumption.⁴⁸ The recent shift within the development community to focus on helping low-income countries develop their domestic taxation systems is an important step in the right direction, and one that demands further support from donors and international agencies [see section 4].⁴⁹

It has long been argued that aid should be pooled at the international level and channelled through a more representative body, such as a World Development Fund managed by the United Nations, in order to remove the short-term political interests of donors and ensure that ODA is redistributed efficiently through binding long-term commitments.⁵⁰ Some analysts are calling for more genuinely redistributive systems to replace ODA as the primary method of funding development, such as those based on a global system of progressive and redistributive taxation.⁵¹ Ultimately, an end to world poverty will never happen without a reformed architecture of global governance, a shift in power relations from North to South, and major political-institutional changes in the global economy.

Learn more and get involved

AidFlows: Flash graphics on how much development aid is provided and received around the world, provided by the OECD, the World Bank and the Asian Development Bank. Users can select individual donors (providing the aid) and beneficiaries (receiving the aid) to track the sources and uses of aid funding. <www.aidflows.org>

AID/WATCH: An independent watchdog on aid, trade and debt. Based in Australia and working with communities in the Global South, they challenge practices which undermine the ability of communities to determine their own futures, and promote development alternatives based on social and environmental justice. <www.aidwatch.org.au>

The DATA Report 2012: For five years, the ONE campaign’s annual DATA reports monitored the historic promises that the G8 and EU made to sub-Saharan Africa at the Gleneagles Summit in 2005. The latest report assesses Europe’s progress in keeping its promises for aid increases and aid effectiveness. <www.one.org/data>

Does foreign aid really work?: Book by Roger Riddle with a comprehensive analysis of the aid system, and practical conclusions for how to make aid an effective force for good. Published by OUP Oxford, 2007.

The Centre for Global Development: The Center's work on aid effectiveness focuses on the policies and practices of bilateral and multilateral donors. It includes analysing existing programs, monitoring donor innovations, and designing and promoting fresh approaches to deliver aid. <www.cgdev.org/section/topics/aid_effectiveness>

The End of Poverty – How We Can Make it Happen in Our Lifetime: Book by Jeffrey D. Sachs based on his plan to end global extreme poverty within 20 years. Controversial prescriptions, but useful context and data. Published by Penguin, 2005.

Global Issues on Foreign Aid for Development Assistance: Resources and analysis on the history of aid, including foreign aid numbers in charts and graphs, compiled by Anup Shah. <www.globalissues.org/article/35/foreign-aid-development-assistance>

OECD statistics portal: The latest ODA data from the Organisation for Economic Co-operation and Development, an international economic organisation of 34 countries founded in 1961 to stimulate economic progress and world trade. <www.oecd.org/statsportal>

OneWorld's foreign aid guide: A backgrounder on aid sources and statistics; aids critics; aids effectiveness and aids broken promises. <www.uk.oneworld.net/guides/aid>

Reality of Aid Network: A major North/South international non-governmental initiative focusing exclusively on analysis and lobbying for poverty eradication policies and practices in the international aid regime. Since 2000, the RoA publishes a major biennial thematic report assessing aid effectiveness for poverty reduction. <www.realityofaid.org>

The Story of Official Development Assistance (pdf): A history of the DAC by Helmut Führer, former Director of the OECD's Development Co-operation Directorate. <www.oecd.org/dataoecd/3/39/1896816.pdf>

UN Millennium Project: Commissioned by the United Nations Secretary-General in 2002 to recommend a concrete action plan for the world to reverse the grinding poverty, hunger and disease affecting billions of people. <www.unmillenniumproject.org>

Notes

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6. End support for agribusiness

Developed countries spend **\$374bn** supporting their agricultural sectors each year, the majority of which goes to large-scale wealthy farmers and agribusinesses.

The economic impacts of agricultural subsidies in developed countries can be devastating for small-scale and family-run farms that continue to disappear each year.

Millions of smallholder farmers in developing countries are unable to compete with cheap, subsidised imports of agricultural commodities from rich countries and either abandon their livelihoods or get pushed deeper into poverty.

The industrial model of agriculture that OECD subsidies sustain is environmentally destructive, causes excessive pollution, and contributes a major proportion of global carbon emissions.

Eliminating inappropriate and wasteful agricultural subsidies is likely to require steep cuts, in the range of 50% across OECD countries. This could raise **\$187bn** annually to prevent hunger and deprivation in the Global South.

The remaining subsidies in OECD countries should be re-oriented to support a transition to more localised and agroecological farming practices based upon the principles of food sovereignty.

Global food systems are experiencing a severe crisis: despite the production of more than enough food to feed the world's population, life-threatening food emergencies continue to devastate many developing countries and almost a billion people are now hungry – one in seven of the global population.¹

Governments are also facing immense challenges stemming from climate change, environmental degradation and rising populations, while the increasing demand for meat and biofuel production is set to further intensify the pressure on agricultural land over coming decades. The structural causes of these interlinked issues are complex and include unfair international trade rules, the impact of financial speculation and the growing power and concentration of multinational agri-corporations. But underpinning the crisis in food systems is the 'modern' style of industrial agriculture that is largely sustained by the colossal subsidies paid to a minority of farm operations in rich countries.

These subsidies continue to favour large, industrialised producers at a time when experts are calling for greater support for smallholder farmers using environmentally sustainable practices, alongside more localised production and consumption. The evidence now overwhelmingly suggests that 'agro-ecological' food production – which entails small-scale farms growing a larger variety of crops using very few chemical inputs – is the most efficient way to meet development and sustainability goals of reducing hunger and poverty, improving nutrition, health and rural livelihoods, and facilitating social and environmental sustainability [see box 14].²

Reforming agricultural subsidies alone will not address the root causes of the agricultural crisis, but significantly reducing the most perverse subsidies could help protect millions of small-scale farmers throughout the world as well as help safeguard the environment. At the same time, these reductions would enable governments to raise billions of dollars each year that could be better spent promoting agro-ecological farming practices and increasing food security in developing countries.

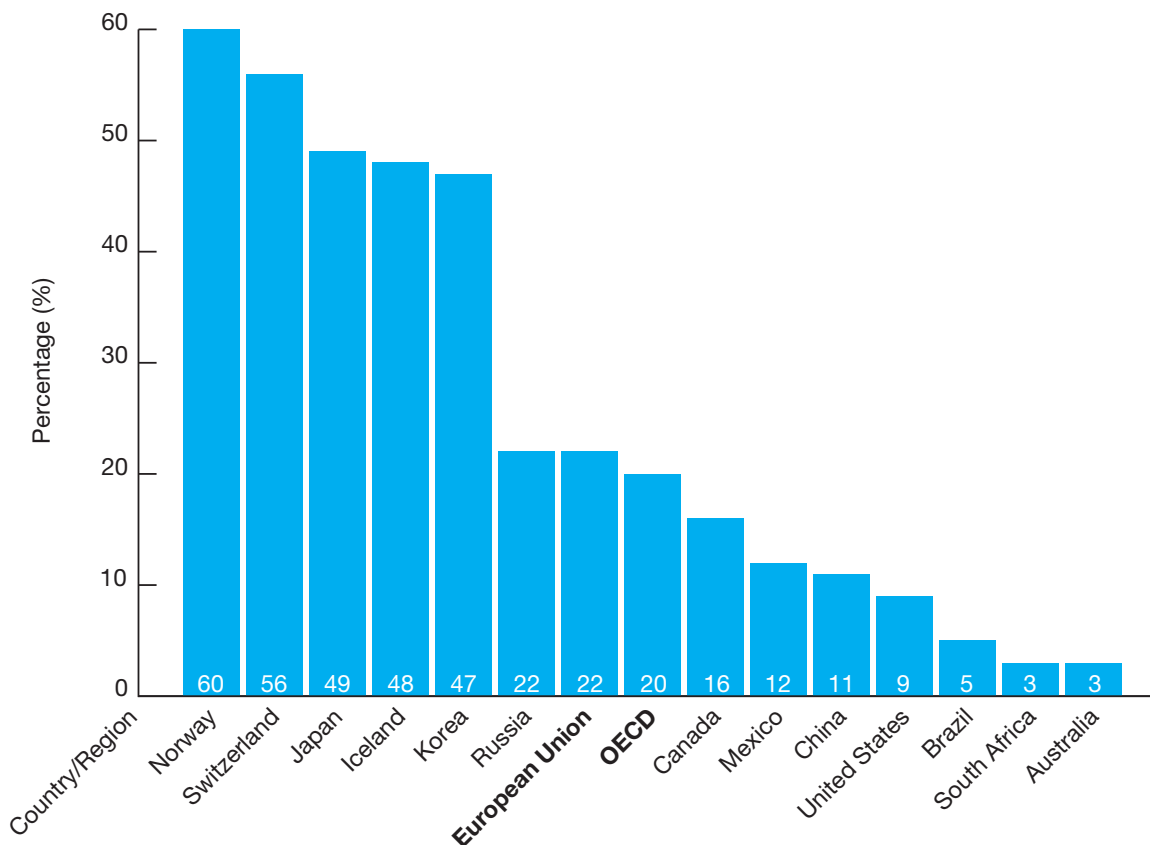
Subsidies for the few

The amount of public revenue spent by governments to support farmers in the 34 countries of the Organisation for Economic Co-operation and Development (OECD) has been steadily declining in recent years, but still remains considerable: in 2010, these countries spent in excess of \$1bn a day (**\$374bn** annually) supporting their agricultural sectors. Of this, subsidies given directly to farmers (called producer support) totalled \$227bn a year, which accounted for an average of 20% of farm profits [see figure 11].³

These huge agricultural subsidies are currently distributed in a highly regressive manner, meaning that they accrue mostly to large farms and agribusinesses and neglect smaller farm operations. A major example is the European Union's Common Agricultural Policy (CAP), which is meant to ensure a fair standard of living for agricultural producers in Europe. In reality, around 80% of direct income support goes into the pockets of the wealthiest 20% of farms – mainly big landowners and agribusiness companies.⁴

The EU does not release the full details of subsidy recipients, but a watchdog found that in 2010 at least 1,330 payments of more than €1m (US\$1.3bn) were handed out to big farms across Europe.⁵ Farm subsidies under CAP amount to approximately **€55bn** a year

Figure 11: Producer support estimates as a percentage of gross farm receipts



(US\$74bn), just over 40% of the EU's entire annual budget,⁶ for a sector that accounts for less than 2% of employment across the region. The picture is similar in the United States, where only 38% of farms receive any government support; in 2011, the top 10% of these farms collected 75% of all subsidies.⁷ Over \$277bn was paid out in subsidies between 1995 and 2011, but 62% of US farmers did not collect any subsidy payments at all [see table 5].⁸

Smaller farmers struggling to compete often incur unpayable debts which drive them into bankruptcy, and their lands are then consolidated into those of the largest and wealthiest farmers. In Europe, 200,000 farmers gave up agriculture in 1999 alone.⁹ According to a census published by Eurostat, the EU has lost 3 million farms between 2003 and 2010.¹⁰ Possibly more than a thousand farms continue to disappear across Europe every day, mainly as a result of the lack of political will on the part of governments and international institutions to back local, family-scale and smallholder agriculture.¹¹

Similarly in the US, more than 90,000 farms of less than 2,000 acres were lost in just five years from 1997 to 2002, while farms above 2,000 acres increased by more than 3,600.¹² Yet small farms continue to be a vital part of the rural economy, employing the vast majority of agricultural labourers in many OECD countries and producing the majority of agricultural goods. This is despite being the persistent losers in agricultural support programmes that favour highly mechanized and capital-intensive farm operations.

Notwithstanding the social problems caused by the elimination of the family farm and the concentration of land, resources and production, many agricultural subsidies also serve to exacerbate environmental damage. The industrial model of production and consumption that OECD subsidies sustain is based on intensive energy use, and is highly dependent

Table 5: The concentration of agricultural subsidies in the US 1995–2011

Recipients (%)	Payments (%)	Number of recipients	Total payments (US\$ million)	Payment per recipient (US\$)
Top 1%	0.25	36,551	57,141	1,563,333
Top 5%	0.58	182,756	132,662	725,895
Top 10%	0.75	365,512	172,155	470,997
Top 15%	0.83	548,268	192,501	351,108
Top 20%	0.89	731,025	204,625	279,915
Bottom 80%	0.11	2,924,101	26,070	8,916

Source: Environmental Working Group Farm Subsidy Database 2012.

on external capital and chemical inputs. This is accompanied in many instances by environmental degradation such as soil erosion, salinization, pollution by pesticides and nitrogen-rich farm effluent, as well as the excessive use of natural resources. It also contributes to most of the greenhouse gas emissions released by agriculture, livestock production and fisheries.¹³ With the huge level of support given to industrial agriculture, the costs of ecological depletion remain largely external to the market.

Impacts in the global south

One of the main negative effects of subsidies in the EU and US is to stimulate the overproduction of ‘cash-crops’ such as corn, wheat or soybean, vast quantities of which are then sold on international commodity markets at artificially low prices. Further constrained by unfair trade rules, smallholder farmers in developing countries increasingly find themselves unable to produce goods that are cheaper than the subsidised imports from rich countries that flood local markets. This so-called ‘food dumping’ – when surpluses are sold at below the cost of production – undermines the livelihoods of local farmers who cannot compete with the artificially low prices and are often driven out of their jobs, further increasing the market share of larger producers such as those in the US and Europe.

Many industrialised nations have taken some steps in recent years towards reducing the extent to which agricultural subsidies impact on food security in developing countries. Nonetheless, their subsidies still stimulate artificially cheap exports and cause significant harm to small producers in the Global South.¹⁴ For example, agricultural analyst Jaques Berthelot demonstrates that EU animal products sold on the world market received, on average, subsidies equalling a third of their export value in the period 2006-2008.¹⁵ This decreases the world market price for the products and affects producers in the South by reducing their incomes, disrupting local markets and displacing exporters. European milk dumping alone can potentially affect up to 900 million people estimated to live in dairy farming households, the vast majority of whom are impoverished small farmers.¹⁶

In recent years, negotiations at the World Trade Organisation (WTO) have particularly focussed on reducing agricultural subsidies that distort trade and lead to dumping by introducing a classification system for farm payments. However, wealthy countries reclassify much of their payments as ‘permissible’ even when it continues to encourage overproduction or harm farmers in the South.¹⁷ WTO agreements have also permitted rich countries to maintain high import tariffs on many agricultural products, which act as a barrier to small farmers trying to export their goods to foreign markets. Furthermore, the severe crisis in smallholder farming across the world is connected to bilateral and regional free trade agreements that have further reduced import tariffs for developing countries,

preventing them from protecting their farmers from subsidised and artificially cheap produce from rich countries [see section 10].

Together, unjust OECD subsidies and free trade agreements lead to a loss of income and employment in the South, and contribute to a 'rural exodus' in many developing countries as small farmers abandon their plots of land and head to cities in search of jobs. The majority of these migrants usually find themselves living in urban slum communities, often in deprived conditions and with no additional opportunities for economic or social security.¹⁸ In sum, the subsidy system in rich countries perpetuates an unfair trading system, undermines the development chances of some of the poorest producers in the world, and lies at the root of serious environmental degradation. Clearly, a system that spends billions of dollars in OECD countries to sustain an unjust and unsustainable model of agriculture is in need of fundamental reform.

Radically reforming the subsidy system

Although governments in developing countries also provide some degree of financial support to their agricultural sectors, especially in emerging economies, these subsidies still remain relatively low compared to the OECD average.¹⁹ Most developing countries simply do not have the same financial resources, or the flexibility within WTO negotiations, to support their producers to the same degree as the industrialised nations.

The priority of subsidy reform efforts should therefore be targeted at OECD countries, particularly within the EU and US where agricultural support reaches the highest levels and the vast majority ends up as windfall profits for the wealthiest farmers and largest agro-corporations. In particular, ending those subsidies that facilitate the overproduction and export of artificially cheap produce could halt the practice of food dumping and provide a significant stimulus for rural economies in developing countries, which in turn could increase incomes and improve food security.

Eliminating these 'bad' subsidies would free up significant government resources that could be used for worthier causes. In the US alone, the Green Scissors campaign estimates that \$11bn annually could be saved in cuts to selected agricultural subsidies that are wasted on corporate welfare to agribusiness and fail to address the needs of the majority of America's farmers.²⁰ If the level of domestic subsidies across OECD countries is reduced by an average of 50%, **\$187bn** could be raised by governments and used instead to reduce poverty and increase food security in developing countries [see below].

However, agricultural subsidies *per se* are not the problem. Smallholder farmers everywhere, in North and South, need public sector support for food production and rural development. These 'good' subsidies should be augmented in OECD countries by redirecting the remaining level of support to smallholders and agroecological farming practices. Redistributing these payments away from agribusiness corporations would facilitate employment within the farming sector and help keep family farmers on the land, support vibrant rural economies, assist with soil conservation, and support the urgently-needed transition to a sustainable food system – one that reflects the realities of 21st Century agriculture.

In the end, reforming subsidies is only part of the answer to resolving the crisis in agriculture and must be accompanied by much wider reforms to the world's food systems. As campaigned for by progressive farm groups worldwide, there is a critical need to establish fairer regional and global trade arrangements that comply with the 'food sovereignty' framework.²¹ The aim for governments should be to establish higher levels of food self-sufficiency and reduce dependency on imports, both within OECD countries and across the Global South. One central demand of smallholder farmers is for a fair and reliable price for the produce they sell, which requires the wide implementation of supply management policies to regulate production and help raise commodity prices for farmers.

Moreover, the goal of rural and agricultural development needs to be given additional support across OECD countries where policies should aim to diversify and improve future employment opportunities in the farming sector, particularly for smallholders.²²

How much revenue could be mobilised?

Given that a significant proportion of OECD subsidies are ultimately spent supporting large agri-corporations and industrial agricultural practices, steep cuts to existing levels of domestic subsidies are necessary. As a minimum, these cuts should eliminate those subsidies that facilitate the overproduction and export of artificially cheap produce to developing countries (including indirect and hidden subsidies).

Reducing agricultural subsidies by an average of 50% across OECD countries could raise \$187bn per year, which could instead be used to tackle poverty and increase food security in the Global South. Remaining subsidies should be re-oriented to support small-scale producers and agro-ecological farming practices, alongside wider reforms to agriculture based upon the principles of food sovereignty.

50% reduction in total OECD agricultural support = **\$187bn** per year.²³

Fixing the farm subsidy regime

Subsidies have been a key stumbling block in trade negotiations ever since agriculture was included in the World Trade Organisation agreement at its inception in 1995. The Agreement on Agriculture (AoA) has long been criticised by civil society groups for reducing tariff protections for small farmers, while allowing rich countries to continue paying their farmers massive subsidies that developing countries cannot afford. In effect, the AoA locked in the disadvantages and unequal playing field that developing countries already faced in agricultural commodity markets. Considerable contention has existed both against and between the EU and US in subsequent negotiations over their maintenance of subsidies, which are seen to operate effectively as barriers to free trade.

Following the start of the Doha 'development' round of trade talks in 2001, many campaigners focused on the subsidies issue with the oft-heard claim that while nearly three billion people in the world are forced to live on less than \$2 a day, the average European cow receives more than that amount in government subsidies.²⁴ At the Cancun Ministerial in 2003, the new 'Group of 21' countries – led by some of the developing world's most important agricultural producers and exporters, including Brazil, India and China – demanded a rapid phase-out of agricultural subsidies in the US, EU and Japan.²⁵

The US in particular was not only unwilling to cut subsidies, but continued to expand agricultural protections to appease domestic interests – in fact almost doubling subsidies on some products in the preceding US farm bill in 2002,²⁶ and increasing them again in a five-year programme of subsidies in 2008.²⁷ Subsidy levels in both the US and EU have since decreased in recent years, especially from 2006 onwards. With the rise in global food prices, subsidy levels have reduced in those countries where part of the support to farmers is linked to low prices, although total subsidy levels still remain considerable for most OECD countries.

Ending the 'boxing match' in agricultural trade

A favoured tactic of the 'subsidy superpowers' in WTO ministerial meetings has been to redefine subsidies according to the box categories of permitted farm payments (the 'hide the subsidy' shell game), rather than significantly cutting overall support.²⁸ Green box payments – those that are meant to cause no more than minimal distortion of trade or production – remain exempt from the WTO's subsidy spending limits, and now comprise nine-tenths of the subsidies in the US,²⁹ as well as a record amount of subsidies in the EU.³⁰ Yet many experts contest that green box payments continue to have a trade-distorting and surplus-stimulating effect owing to their sheer size, and for often being concentrated on the largest and most productive farms.³¹ For example, the EU may well have offered to reduce trade distorting subsidies by 80% through the WTO negotiations and to eliminate farm export subsidies altogether, but it still provides an enormous level of domestic support to EU farmers that enables the export of European wheat products at dumping prices.³²

The WTO has thus proven itself an unlikely venue for achieving meaningful reductions in agricultural subsidies. Failure to reach agreement about reducing subsidies was a key reason for the standstill in all WTO negotiations since the Doha Round began, including at the collapse of talks in Geneva, July 2008.³³ A major problem is the significant political support that domestic farm programmes receive in OECD countries, as few politicians are willing to challenge the powerful 'Big Ag' lobby that directly influences the negotiating positions of the EU and US in the WTO. The thousands of lobbyists based in Washington and Brussels, often outnumbering parliamentary officials and lawmakers, ensure that the interests of multinational corporations are placed well ahead of poor people's livelihoods in the South.

The folly of Big Ag

Despite extensive and ongoing subsidy reform processes, policymakers within the EU and US continue to favour the vested interests that prevent subsidy programs from sustaining small family farms and promoting the wider public interest. According to campaign groups, US subsidies are still co-opted to support plantation-scale production of corns, soybeans, rice, cotton and wheat, while failing to act as a safety net for working farm and ranch families.³⁴ Trade campaigners have also criticised the European Commission proposals on a reformed Common Agricultural Policy (CAP) for dropping every reference to Europe's development obligations.³⁵ In the longstanding debate on CAP reform, its external dimension – in terms of its strong influence on the state of poverty and food insecurity in the world – remains only marginal to discussions.³⁶

Agricultural subsidies are a foremost example of unfair trade and the unequal distribution of government support in favour of large, input-intensive and export-oriented industrial producers. Fundamentally redirecting these subsidies is an urgent priority if the world is serious about benefiting the poor and protecting the environment. In the context of a global financial crisis that is costing millions of people their jobs, it makes no economic or moral sense to continue handing out taxpayers money to some of the most destructive agri-corporations and richest landowning individuals.

Meaningful subsidy reductions in OECD countries could mark a major step towards meeting international development goals, and could contribute significantly to a more environmentally sustainable model of agriculture. But this will only happen if governments redirect remaining domestic support towards strengthening smaller scale, more localised and regenerative models of agriculture both at home and abroad. Such a radical reform of the subsidy system is unlikely to happen without huge pressure from a wide range of civil society actors, progressive farmer groups and concerned politicians worldwide.

New era for agriculture?

The following text is taken directly from a 'Food First Backgrounder' by the Institute for Food and Development Policy, Volume 14, Number 2, Summer 2008. The article is by Marcia Ishii-Eiteman, a senior scientist at PAN North America and a lead author on the Global Report of the IAASTD. The full backgrounder is available at <www.foodfirst.org>

On April 7, 2008, as the media headlines focused on falling grain reserves, soaring food prices, and food riots, representatives from 61 nations met in Johannesburg, South Africa to adopt a UN report that proposes urgently needed solutions to the global food system's systemic problems. The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) asked the question: What must we do differently to overcome persistent poverty and hunger, achieve equitable and sustainable development, and sustain productive and resilient farming in the face of environmental crises?

The IAASTD study, sponsored by the UN Environment Programme, Food and Agriculture Organisation, and Development Programme; UNESCO; Global Environment Facility; and the World Bank, represents four years' work by more than 400 experts who examined the intertwined problems of global agriculture, hunger, poverty, power and influence. Their findings sent shockwaves through the conventional agriculture establishment.

Call for an agricultural revolution

"Business as usual is not an option," declared IAASTD Director Robert Watson, echoing the IAASTD's call for a radical transformation of the world's food and farming systems. The final report – endorsed by 58 governments and released worldwide on April 15, 2008 – concluded that industrial agriculture has degraded the natural resources upon which human survival depends and now threatens water, energy and climate security. The report warns that continued reliance on simplistic technological fixes – including transgenic crops – is not a solution to reducing persistent hunger and could increase environmental problems and poverty. It also critiqued the undue influence of transnational agribusiness on public policy and the unfair global trade policies that have left more than half of the world's population malnourished.

The IAASTD report affirmed that we have options to change direction. By revising policies to strengthen the small-scale farm sector, increasing investments in agroecological farming and adopting an equitable international trading framework, we can establish more socially and ecologically resilient systems while maintaining current levels of productivity and improving profitability for small-scale farmers. The report's authors suggested reconfiguring agricultural research, extension and education to incorporate the vital contributions of local and Indigenous knowledge and innovation, and embrace equitable, participatory decision-making processes.

This is the first independent global assessment that acknowledges that small-scale, low-impact farming contributes crucial ecological and social functions that must be protected, and that nations and peoples have the right to democratically determine their own food and agricultural policies.

Food sovereignty: Answer to the food crisis

Today's global food crisis has been exacerbated by a number of factors: the large-scale conversion of food crops to agrofuel production, price volatility driven by rampant commodity speculation, changing diets, and climate-related production shortfalls. However, as documented by the IAASTD, the deeper roots of today's crisis lie in decades of governmental neglect of the small-farm sector, grossly unfair trade rules and Northern governments' practice of dumping food surpluses on countries in the global south at prices far below local cost of production.

These policies, together with heavy reliance on environmentally destructive industrial agricultural practices, have destroyed rural farm communities around the world, undermining their ability to produce or buy food and contributing to environmental pollution and water scarcity. The IAASTD report presents a blueprint to confront today's food crisis. We can begin to reverse structural inequities within and between countries, increase rural communities' access to and control over resources, and pave the way towards local and national food sovereignty by strengthening farmers' organizations, creating more equitable and transparent trade agreements and increasing local participation in policy formation and other decision-making processes.

The report concludes that ensuring food security and recognizing food sovereignty requires ending the institutional marginalization of the world's small-scale producers.

An inconvenient truth

The IAASTD was precedent-setting for its bold experiment in shared governance. Civil society groups (along with government and private sector representatives) participated in both authoring the report and in providing oversight and governance. History shows that governments and transnational corporations, acting on their own, have not been successful in meeting broad societal goals. The IAASTD's success has proven that active civil society participation in intergovernmental processes is critical to meeting the challenges of the 21st century.

The radical shifts proposed by the IAASTD report challenge the status quo. Syngenta walked out of the IAASTD process in its final days, complaining that their synthetic pesticides and transgenic products had not been sufficiently valued. The U.S. and Australian governments were especially stung by criticism of their trade liberalization policies, which were criticized for adverse social and environmental impacts while doing little to alleviate hunger and poverty.

Just three countries – the U.S., Australia and Canada – have refused to endorse the report. Like reports on the climate crisis, the IAASTD's findings are likely to be considered an "inconvenient truth" for the industrial agricultural establishment and the world's dominant economies.

The U.S. government, the agrochemical trade association CropLife, and other beneficiaries of the current system continue to argue loudly against change at a time when both environmentally alarming changes and global social unrest caused by grinding poverty pose a significant threat.

For more information see: <www.panna.org/jt/agAssessment>

All IAASTD documents are available at <www.agassessment.org>

Learn more and get involved

Capreform.eu: A sister project to farmsubsidy.org, working to bring greater transparency and accountability to the Common Agricultural Policy. <www.capreform.eu>

Farmsubsidy.org: With the European Union spending around €55bn a year on farm subsidies, this website helps people find out who gets what, and why. <www.farmsubsidy.org>

Food Rebellions – Crisis and the Hunger for Justice: A book by Eric Holt-Giminez and Raj Patel on the real story behind the world food crisis and what we can do about it, published by Pambazuka Press, 2009.

The Global Food Economy – The Battle for the Future of Farming: A book by Tony Weis that examines the contradictions of the current food economy, how such a system came about, and how it is being enforced by the WTO. Published by Zed Books, 2007.

Global Subsidies Initiative: Putting a spotlight on subsidies – transfers of public money to private interests – and how they undermine efforts to put the world economy on a path toward sustainable development. <www.iisd.org/gsi>

Green Scissors 2011: A coalition of environmental, taxpayer and consumer groups identify US government subsidies that are damaging to the environment and waste taxpayer dollars. www.greenschissors.com

‘Growing a Better Future: Food Justice in a Resource Constrained World’: A report published in May 2011 by Oxfam to launch their new campaign with a simple message: that another food system is possible. <www.oxfam.org/en/grow/reports/growing-better-future>

IAASTD: A three-year collaborative effort (2005–2007) that assessed agricultural knowledge, science and technology for development, with respect to meeting development and sustainability goals of reducing hunger and poverty, improving nutrition, health and rural livelihoods, and facilitating social and environmental sustainability. <www.agassessment.org>

International Centre for Trade and Sustainable Development (ICTSD): A Geneva-based organisation with a programme on agricultural trade and sustainable development that seeks to promote food security, equity and environmental sustainability in agricultural trade. <www.ictsd.org/programmes/agriculture>

Institute for Agriculture and Trade Policy (IATP): A think-tank and campaign organisation based in Minnesota, U.S., that works locally and globally at the intersection of policy and practice to ensure fair and sustainable food, farm and trade systems. <www.iatp.org>

Just Trade?! An NGO project that advocates for greater policy coherence between EU development and trade policy, with a view to promoting equitable and sustainable development. <www.just-trade.org>

National Family Farm Coalition: A non-profit organisation that represents US family farm and rural groups to secure a sustainable, economically just, healthy, safe and secure food and farm system. <www.nffc.net>

Reform the CAP: Another resource for all those interested in reforming the EU's Common Agricultural Policy, helping to foster a better understanding of what is at stake and how to shape the future CAP. <www.reformthecap.eu>

The UK Food Group: The principal UK network for non-governmental organisations (NGOs) working on global food and agriculture issues, holding a vision of a more just, sustainable and fairer food system in which hunger has been eradicated, equity realised and the environment restored. <www.ukfg.org.uk>

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Notes

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7. Redistributing IMF resources

Although the International Monetary Fund (IMF) is in need of fundamental reform to its governance, policies and mandate, it is uniquely placed to leverage its significant financial resources for climate finance and poverty eradication in developing countries.

There is a strong case for the IMF's Special Drawing Rights facility to be expanded as a cheap and quick source of public finance for low-income and developing countries.

The IMF has the third largest holding of gold reserves in the world, which could be progressively sold off at market rates without impacting international gold prices or the IMF's ability to lend.

By using a combination of these options, it would be possible to raise a one-off **\$165bn** by transferring existing SDRs, a further **\$100bn** every year from new SDR allocations, and an additional **15.5bn** annually if IMF gold reserves were progressively sold over a period of ten years.

These proposals for sharing the IMF's assets could help restore its flagging legitimacy and compensate for its decades of international financial mismanagement, as well as pave the way for deeper reforms to the Fund and the global economic architecture.

The powerful influence exerted by the International Monetary Fund (IMF) over economic policy decisions taken in countries all over the world has earned it a deeply controversial reputation in recent decades.

While Wall Street and the world of globalised finance continues to rely on the IMF to try and uphold a global economy based on free markets, civil society groups and millions of citizens throughout the Global South see the Fund and its market-driven policies as a threat to social and economic justice. Many observers have argued that the IMF's programmes and policy prescriptions are harmful to developing countries and ineffective at producing economic stability, leading many campaigners to call for the Fund to be fundamentally restructured or entirely decommissioned.

Even without enacting much-needed reforms to the IMF's governance, policies and mandate, the institution remains uniquely placed to leverage its significant resources to raise and redistribute vast quantities of additional finance by utilising its Special Drawing Rights facility, and through the progressive sale of its enormous reserves of gold bullion. These measures alone could raise billions of dollars over a number of years to help finance poverty eradication and climate change adaptation and mitigation programs in developing countries. Implementing these redistributive mechanisms on a global scale requires little more than goodwill and some degree of international cooperation, as well as the necessary political resolve to use the IMF's resources more effectively during a time of economic upheaval.

Making better use of Special Drawing Rights

One of the primary roles of the IMF is to ensure that countries have sufficient reserves to sustain their international financial transactions. While this is usually achieved by lending money to governments experiencing balance of payment problems (such as when a country's payments for imports exceeds the income it receives for its exports), the Fund can also utilise Special Drawing Rights (SDRs) for the same purpose.

SDRs were first introduced as a supplementary international reserve asset in 1969, at a time when global trade and finance was rapidly expanding but there was a shortage of both dollars and gold. SDRs are used much less frequently today since the collapse of the fixed exchange rate system in 1971, which eliminated the dollar-gold linkage and made the US dollar the de facto international reserve currency. As they were no longer a crucial supplement to the Bretton Woods system, SDR's fell into abeyance after a final allocation was made in 1981. However, at the G-20 Summit in April 2009 world leaders called for the first allocation of SDRs in 28 years in a bid to inject liquidity into the crisis-ridden global economy. Within five months, the IMF made a general allocation of SDRs worth approximately US\$250bn. Wealthy countries received roughly two-thirds of this amount, and less than five percent – about \$11bn – went to the most vulnerable countries in sub-Saharan Africa [see table 6].¹

There is no material cost in creating SDRs and, in contrast to its loan financing, the IMF cannot dictate the conditions under which they are used. The Fund can only allocate SDRs in proportion to a member country's quotas, which are determined by the country's relative weight in the global economy. Because of this, most of the SDRs go to wealthy nations with the biggest quotas and most voting power at the IMF. When a government

Table 6: SDR allocations 1970–2011

Date	Amount (SDRs)
1970–1972	9.3bn
1979–1981	12.1bn
August 2009	161.2bn
September 2009	21.4bn
March 2011	20.8bn

Note: As of 31st July 2012, one SDR was worth about US\$1.5.

Source: International Monetary Fund.

converts its SDRs into hard currency, it is required to pay a small interest charge to the IMF applicable until that government converts the currency back into the form of SDRs.

Despite existing concerns over the insufficient allocation of SDRs to poorer countries, there is a strong case for the scope and use of SDRs to be expanded as an innovative source of development funding. SDRs could provide a convenient, quick and cheap source of public finance for low-income and developing countries, and if utilised fairly and responsibly they could raise significant sums for critical financing needs such as poverty eradication, climate finance and effective measures to counter the impacts of the global economic crisis.

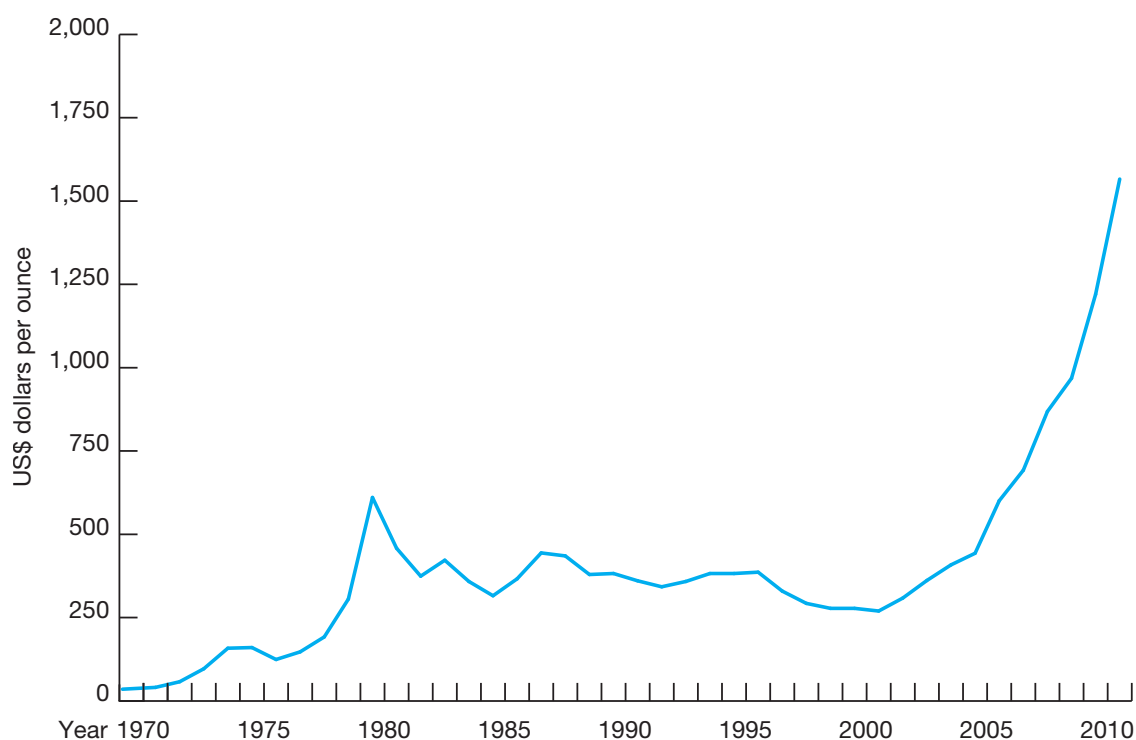
Three ways to redistribute SDRs

There are three main proposals for how SDRs could be put to better use. The first is for developed countries to transfer a portion of their idle SDR allocation to countries that need them. Wealthy countries received approximately **US\$165bn** of the general allocation of SDRs made in 2009. If this allocation was transferred to developing countries on the basis of need, it would improve the credit ratings of recipient countries and enable them to acquire loans on better terms. Alternatively, they could convert the SDRs to hard currency with no conditions attached. The interest charges on the converted SDRs could be covered either by the donor countries, or through the sale of IMF gold stocks.²

A second proposal was originally put forward by the financier George Soros at the Copenhagen Climate Change Conference, December 2009. He suggested that wealthy countries should utilise a portion of their existing SDR allocations to finance a \$100bn “fast-start green fund” – preferably under the auspices of the United Nations. The green fund would use the SDRs to back bonds which would then be offered on international capital markets. The proceeds from the sale of these bonds could then form the basis of much-needed climate loans to developing countries, which they could use for adaptation, mitigation and other environmental projects.³

A more far-reaching proposal put forward by civil society organisations is for the IMF to issue new SDRs either annually or automatically during times of financial crisis. These new allocations could occur in addition to SDR transfers and would be apportioned on the basis of need rather than by quota. Needs could be determined by identifying a country’s financing gap for meeting its goals on delivering healthcare, housing, education, and food security. It is widely acknowledged that new allocations of approximately **\$100bn** a year could be made without leading to inflation.⁴ A group of leading economists have also suggested that annual SDR allocations equivalent to US\$240-400bn over a three year period would help stabilise the global economy.⁵

Figure 12: Gold price yearly average 1970–2011



Source: Kitco.com

Selling the IMF's gold stocks

The IMF has the third largest holding of gold reserves in the world after the United States and Germany, valued at 90.5 million ounces – almost 2,600 metric tonnes.⁶ These gold holdings have been acquired over time through several types of transactions. Initially, 25% of member states' quota subscriptions and subsequent quota increases were paid in gold. The majority of the IMF's gold was acquired prior to 1978, when member's payments of loan interest charges were also mostly paid in gold, and member countries' access to foreign currencies could be exchanged for gold. Furthermore, member countries could use gold to repay the IMF for credit previously extended.

Following the Second Amendment of the IMF's Articles of Agreement in 1978, the use of gold was no longer obligatory in transactions between the IMF and its member countries. Under the amended Articles, the IMF was permitted to sell gold outright on the basis of prevailing market prices. It could also accept gold in the discharge of a member country's loan repayments at an agreed price (based on market prices at the time of acceptance).

The value of the IMF's gold is recorded on its balance sheet on the basis of 'historical cost' which stands at only \$4.9bn dollars. But given the current commodity price of gold its market value is substantially more, amounting to over \$160.1bn as of the end of March 2012⁷ – a figure that is expected to continue rising over coming years [see figure 12].⁸

As widely argued, these reserves could be put to far better use if they were systematically sold-off at market rates over a number of years.⁹ The additional \$155.2bn that would be raised by selling the gold could be used by the IMF to provide multilateral debt relief for countries struggling to repay unsustainable and unjust debts, without reducing the historic book value of the Fund's reserves.¹⁰ Alternatively, it could provide condition-free grants to

countries in urgent need of finance for climate change mitigation and adaptation or social protection programs.

Using the gold reserves in any of these ways would not affect the IMF's day-to-day lending activities, as the gold only constitutes a tiny proportion of its total asset base.¹¹ But it would represent an important redistribution of international financial resources in favour of countries with very low incomes and high rates of poverty, and those already experiencing the devastating impacts of climate change.

How much revenue could be mobilised?

By using a combination of the options below, it would be possible to raise a one-off \$165bn by transferring existing SDRs, and a combined annual sum of \$115.5bn per year from new SDR allocations and progressive gold sales:

Transferring SDR allocations:	\$165bn (one-off). ¹²
New SDR allocations:	\$100bn (annually). ¹³
IMF gold sales:	\$155.2bn (for example, \$15.5bn annually for 10 years – see note). ¹⁴

Will the IMF share its assets?

In response to the global financial crisis of 2008, governments began considering a number of policy options long dismissed by national and international policymakers. This included a call by the G20 group of countries for a general allocation of SDRs in order to provide liquidity to the global economic system by supplementing the IMF's member countries' foreign exchange reserves – a move that was quickly and decisively acted upon.³²

With this precedent and the new resolve demonstrated by the G20, an expanded role for SDRs as a source of development finance is gaining political support. At the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development in June 2010, the G77-plus-China group of developing countries united behind a call for a significant expansion of SDR allocations to meet development financing gaps. While the conference's final statement did not reflect their position, it did call for a "review [of] the allocation of special drawing rights for development purposes".³³

The work of the Stiglitz Commission, convened by the President of the UN General Assembly to investigate the international monetary and financial system, likewise articulated significant support for expanding the scope of SDRs.³⁴ The commission recommended annual allocations of new SDRs as an equitable path to establishing a new global reserve system with distribution determined not only by economic size, but also on the basis of need. Civil society has echoed these calls for allocation criteria to be based on development indicators such as relative poverty levels, or more specific macroeconomic factors such as shortfalls in a country's foreign exchange reserve levels.³⁵

Targeted allocations for development or climate finance purposes would require an amendment to the IMF's Articles of Agreement, which can be a lengthy process. But the process that started with the G20 calling for the \$250bn SDR allocation in 2009 took only four-and-a-half months to result in an allocation. This indicates that an expanded role for SDRs is eminently possible if there is a sufficient degree of political will.

Unlike the proposal for targeted SDR allocations, a precedent for SDR transfers for development financing already exists. In August 2009, the IMF floated a proposal for wealthy countries to transfer their idle SDR allocation to the IMF itself, which would then loan the resources to low-income countries at concessional rates. Both the British and French governments agreed, although the SDRs had to be first converted into hard currency. While this arrangement is not ideal as the IMF loans will carry their usual harmful conditions, it has at least set a precedent for using SDR-generated resources for development funding.³⁶

Sharing the IMF's gold

The IMF's Articles of Agreement place strict limits on the use of their gold reserves, and the Fund is particularly concerned about the destabilising impact that selling their gold could have on the international market price of the commodity. Consequently, the sale of gold by the Fund requires an 85% majority vote from the Board – the same majority required to amend the IMF's Articles. Although this may seem like a significant hurdle, the recent gold sale approved as part of the Fund's recent drive to find robust new income sources to finance its activities shows that it is politically feasible.³⁷

On 18th September 2009 the Executive Board approved the sale of one-eighth of the Fund's total holdings of gold at that time – approximately 403 metric tons. By working in cooperation with the world's central banks – as per the Central Bank Gold Agreement (CBGA) – the IMF sold the reserves in a phased manner that didn't disrupt the gold market (completed in late December 2010).³⁸

The sale generated \$14.7bn, most of which is being used to fund its ongoing activities and subsidise its low interest lending. Because of rising gold prices at the time, however, the sales also generated an excess windfall profit of \$2.8bn. Many civil society organisations demanded that the IMF uses these funds to cancel the debts of low-income countries facing financial hardship outside of their control.³⁹

In February 2012, the Board of the IMF finally agreed to release \$1.1bn of windfall profits from selling gold at a high price to be spent on subsidising concessional loans for low-income countries. How to use the rest of its windfall – another \$1.6bn – is still up for discussion.⁴⁰ However, because this money is seen as IMF general resources, it must first be released back to member states in proportion to their quotas, and then recycled back to an IMF fund (called the Poverty Reduction and Growth Trust). The Third World Network expressed that it is unfortunate that the IMF cannot revise its rules for the use of its gold sale proceeds in a way that would directly benefit low-income countries, such as through debt cancellation.⁴¹

Even before the financial crisis, civil society groups have been calling for the sale of IMF gold for human development purposes. Various reports published by campaign organisations have outlined programs for the phased sale of all the IMF's gold stocks, within the framework of the CBGA, to fund multilateral debt relief and provide condition-free development grants.⁴² These recommendations emphasise that the phased and transparent sale of IMF gold stocks over a minimum period of 10 years would not negatively impact the market or affect the IMF's ability to lend.

Together, these modest proposals for redistributing the IMF's assets through SDR allocations and gold sales would go a long way towards helping developing countries

cope with their massive budget shortfalls. The economic downturn has proven a huge boon for the institution despite the role it played in cheerleading financial deregulation and helping to precipitate the recent financial crisis. As a first step towards compensating for decades of global financial mismanagement, the IMF should immediately free up its excess resources to help address urgent poverty eradication and climate financing needs. Although the Fund needs to fundamentally rethink its role and reorient its activities, these interim measures could help restore its flagging legitimacy and prepare the way for more substantial reforms to the global economic architecture in the longer term.

Box 15:

International Monetary Failure

The IMF was created at the Bretton Woods Conference of 1944 to help maintain global financial stability and economic cooperation in the aftermath of the Second World War. Since then, the Fund's mandate has changed considerably and it is often referred to as the world's 'lender of last resort' for its role in providing loans to cash-strapped developing countries. Following the breakdown of the Bretton Woods exchange rate system in the 1970s, its mission has significantly expanded to include development finance and policy alongside its sister organisation, the World Bank. In promoting rapid trade liberalisation and financial deregulation in developing countries, it also shares an ideological approach to global economic governance with the World Trade Organisation. Together with a powerful body of economists and policy-makers based mainly in the Global North, these three organisations are largely responsible for setting the rules of economic globalisation and ensuring that all countries adopt identical visions, policies and standards for their growth and development.¹⁵

One of the main functions of the IMF in recent decades has been to manage and resolve financial crises in emerging markets, yet its track record in delivering this goal leaves much to be desired. During the period of its emergency lending, the Fund has overseen massive gyrations in the exchange rate of major currencies, growing trade imbalances, and recurrent debt and financial crises that have often reverberated across the global economy. Many analysts have accused the Fund of instigating these crises rather than helping governments to avoid them, largely as a result of its blind faith in markets and consequent pressure on countries to abandon the regulation of cross-border trade and financial flows.¹⁶ The IMF has also consistently failed to predict these crises and issue early warnings, not least with the Mexican peso crisis in 1994, the Asian financial meltdown of 1997 and the sub-prime turmoil of 2007/8. Furthermore, several countries working under IMF programs and drawing on its resources have experienced severe instability and even sovereign default, as in the cases of Russia, Argentina and now possibly Greece. In many instances, at the IMF's insistence, uncollectible private debts are converted into public debt.

One size fits all

In return for financial assistance from the IMF, borrower countries must implement a set of sweeping structural reforms to the economy. Such conditions attached to IMF loans have often forced countries to liberalise and deregulate their trade, investment and financial sectors, as well as privatise formerly state-owned industries among other market-oriented reforms. This ideologically-driven set of policies, once known as the 'Washington Consensus', were most notoriously expressed in Structural Adjustment Programs (SAPs) imposed by the IMF and World Bank on close to 90

developing countries from the mid-1980s to the 1990s. Much of the criticism of the IMF in the past has focused on the adverse repercussions of structural adjustment for economic growth and poverty, with many of the IMF packages being associated with massive job losses and drastically reduced investments in health, education and other public services.¹⁷

IMF programs are also held under fire for interfering with the proper jurisdiction of a sovereign government, and leaving little room for manoeuvre to national policymakers. Although structural adjustment programmes were officially replaced by a new Poverty Reduction and Growth Facility (PRGF) in 1999 with the aim of making “poverty reduction efforts among low-income members a key and more explicit element of a renewed growth-oriented economic strategy”,¹⁸ many civil society organisations have since questioned the IMF’s new rhetoric on ‘country ownership’ of policies and ‘participation’ in the development process.¹⁹ Despite a number of initiatives that the IMF has taken to inform its use of structural conditionality, studies reveal that it continues to push privatisation, liberalisation and other highly sensitive economic reforms on poor countries. This is often despite widespread grassroots opposition, and regardless of the constraint these policies may impose on a government’s ability to invest in much-needed basic services.²⁰

The IMF’s democratic deficit

In a long history of debate over the IMF’s decision-making power, the institution’s legitimacy is frequently questioned in relation to its unbalanced governance structure. This includes the selection of the IMF’s Managing Director which, under the terms of an unwritten agreement at the time of the IMF’s founding, has always gone to someone from Western Europe (while the World Bank president has always been a US citizen) despite widespread criticism from developing countries. European countries continue to dominate the IMF’s executive board, holding 9 out of the 24 seats that are supposed to represent 187 member countries.²¹ The distribution of voting rights is also heavily skewed towards the major industrialised countries through the ‘one dollar equals one vote’ rule, and the United States – which retains the largest share of votes at around 17 percent – is effectively given the sole privilege of veto in matters such as adjustment of quotas, the sale of IMF gold reserves and allocation of Special Drawing Rights. In effect, IMF packages shift macro-economic decision-making from national governments to a Washington-based financial institution in which most developing countries hold little voting power. Although a longstanding reform process has sought to address the IMF’s democratic deficit,²² many observers in the South continue to view the Fund as an instrument for the Western powers to impose self-serving policies on the rest of the world.²³

The track record and relevance of the IMF was increasingly questioned during the tenure of Rodrigo de Rato as its managing director between 2004-2007. Many of its top borrowers repaid the IMF early to reduce interest payments and free themselves from the Fund’s policy ‘advice’, most notably two of its biggest debtors – Brazil and Argentina – which joined other Latin American countries in trying to carve out an autonomous alternative to the World Bank and IMF-dominated international financial architecture.²⁴ Just when the IMF’s future was looking most endangered, however, the bursting of the US housing bubble (unforewarned by the Fund, despite overwhelming evidence) gave it a new lease of life in the midst of economic turmoil. The G20 played a decisive part in attempting to restore the IMF’s legitimacy by trebling the resources available to the institution to \$750bn, thereby enabling it to make loans to many more countries and at greater amounts in attempts to combat the global financial crisis.²⁵

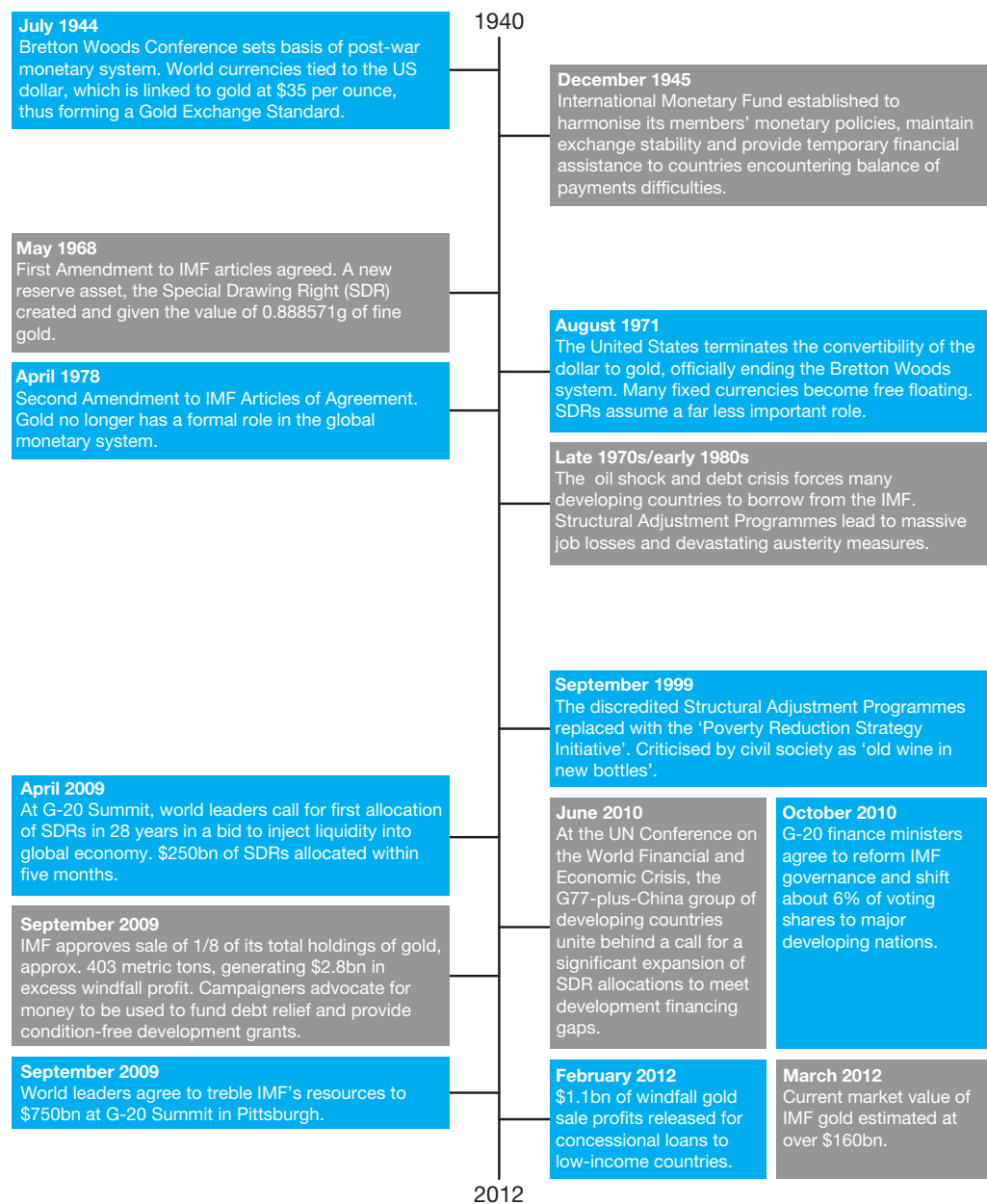
The return of economic austerity

As the IMF strengthens its influence in both emerging economies as well as debt-laden countries in Europe, there appears to be little change to its traditional policy advice and conditions. The descent of Greece into a sovereign debt crisis marked the first time that a country using the euro had resorted to an IMF bail-out, resulting in a devastating austerity package and massive public unrest.²⁶ New IMF programmes for Ireland and Portugal soon after highlighted the same heavy conditionality attached to loans with austerity at the heart of the Fund's debt sustainability policies.²⁷ Recent IMF programmes in low-income countries such as El Salvador, Ethiopia and Latvia are also heavily criticised by civil society for inflicting conditions that constrain governments' ability to prioritise basic social and economic rights, and for providing macroeconomic policy advice that remains insensitive to the needs of developing economies.²⁸

The austerity measures now being imposed by the IMF in several European countries closely parallel the structural adjustment policies that were implemented across Latin America, Africa and Asia at the height of the Fund's power during the 1980s and 1990s. As a standard response to financial crises over the past 30 years, the IMF typically bails out foreign banks to prevent a country from defaulting on its debts, then imposes harsh cuts in government expenditure and extensive programmes of privatisation, liberalisation and deregulation in order to prioritise loan repayments.²⁹ This is regardless of the devastating social impacts that austerity measures cause, and the historical evidence that the IMF's structural adjustment policies can deepen economic recessions and fail to spur recovery.³⁰

The IMF's continued alignment with the interests of the US Treasury and the world's banking and finance sector has led to various calls from leading activists and civil society organisations for it to be decommissioned or radically transformed.³¹ In more than 60 years since the Fund was created it has strayed so far from its original mandate that it has even failed to help countries manage economic crises and keep their international accounts in order, leading to global imbalances, widespread recessions and increasing inequality. So long as the IMF's governance is determined by the handful of developed nations that provide most of its funding, it remains unlikely that it can be reformed into a truly multilateral institution responsible for international economic stability with equal rights and obligations provided to all its members. Whether the IMF is extensively restructured or entirely replaced, it is clear that a more inclusive and representative organisation would be better positioned to maintain global financial stability and provide financial assistance to countries without attaching punitive policy conditions that disproportionately affect the poor.

Figure 13: Key events in the IMF's history



Learn more and get involved

Alternatives to Economic Globalization: An invaluable civil society resource on the need for new international structures, published by the International Forum on Globalisation in 2004.

Bretton Woods Project: A UK-based organisation focusing on the World Bank and IMF to challenge their power, open policy space, and promote alternative approaches. <www.brettonwoodsproject.org>

Focus on the Global South: See the campaign on 'deglobalisation' for new ideas on global economic reform, including the articles and books by Walden Bello. <www.focusweb.org>

Globalization and Its Discontents: The now classic book by Joseph E. Stiglitz on the need for major reform at the IMF and World Bank, published by W.W. Norton, 2003.

IMF Gold Campaign: A coalition of international partners demanding that the extra profit derived from IMF gold sales go to the world's poorest countries for debt relief. By the Jubilee USA Network and 58 international partners. <www.jubileeusa.org>

One size for all: A study of IMF and World Bank Poverty Reduction Strategies: Briefing paper by the World Development Movement, September 2005. <www.wdm.org.uk>

Reforming the International Financial System for Development: Edited by Jomo Kwame Sundaram, a volume of essays that analyse the systemic flaws in the global economic system, with key chapters on special drawing rights. Published by Colombia University Press, 2011.

South Centre: See the programme on global governance for development for the many reports and recommendations on reforming international financial institutions. <www.southcentre.org>

Transnational Institute: An international network of scholar activists aiming to provide intellectual support to worldwide social movements, with extensive research on global economic justice and international finance. <www.tni.org>

10 Reasons to Abolish the IMF & World Bank: A book for campaigners by Kevin Danaher and with a foreword by Anuradha Mittal, published by Seven Stories Press, 2nd Edition: 2004.

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8. Tax carbon emissions

Carbon taxes can provide an incentive for consumers and industries to use fossil fuels more efficiently, help encourage the transition towards low-carbon energy technology, as well as raise significant funding for international climate finance.

There is currently no mechanism to account for the environmental cost of emissions in the shipping and aviation industries, which could raise additional revenue from a universal levy on international transportation. An additional option is a ticket levy on all international air travel, although this is not a carbon tax.

Altogether, at least **\$108bn** per year could be raised from these carbon taxes and levies. This includes \$75bn from national carbon taxes in OECD countries; \$22bn from maritime and aviation taxes; and \$10bn from a ticket levy on international flights.

Various types of carbon taxes have already been introduced in many countries, and support for their implementation continues to grow from many leading scientists, environmental groups and economists, particularly as an alternative to controversial emissions trading schemes.

As governments across the world fail to reduce their emissions to safe levels and climate change continues to spiral out of control, it is clear that the international community needs to take a more radical approach to combating global warming.

Enforcing a strict cap on carbon use is arguably the most important step governments can take as part of a program of reforming patterns of energy consumption and decarbonising the global economy. As a more immediate option, civil society has long been calling on governments to implement a range of taxes on fossil fuels as an alternative to controversial emissions trading schemes that fail to address rising pollution levels.

Carbon taxes are levies placed on the carbon dioxide (CO₂) emissions from burning fossil fuels that have the potential to incentivise energy efficiency, reduce greenhouse gas emissions, as well as encourage a long-term shift in the private sector towards investing in renewable energy sources. In recent years, the possibility of also using revenues from the levy to finance climate adaptation and mitigation programs has reinvigorated the possibility of its implementation – nationally, regionally and even globally.

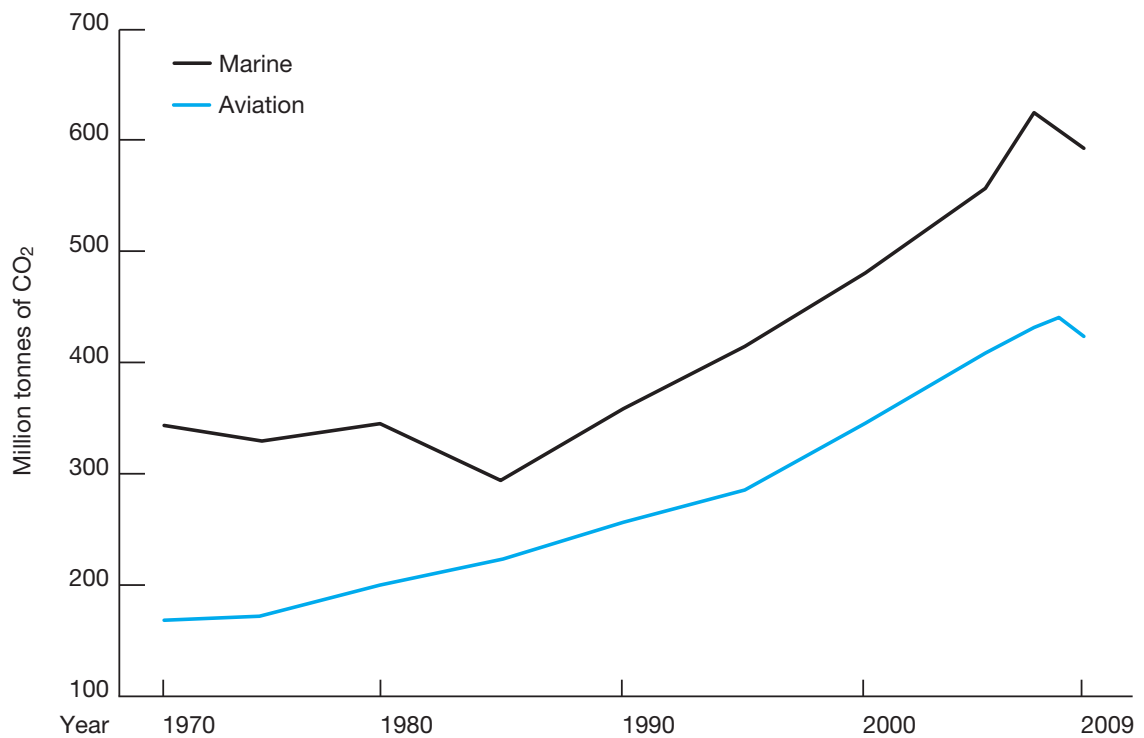
For decades, green economists and campaigners have pointed out that the price of using fossil fuels, such as gas, oil or coal, does not accurately reflect the actual cost of its environmental, social or economic impacts. The artificially low price of these energy sources has encouraged our overreliance on them, exacerbated climate change and prevented the development of alternative forms of energy.

Carbon fees help to include the actual cost of these negative impacts (known as ‘externalities’) in their price by taxing fossil fuels in proportion to how much CO₂ they emit when used. Substantially increasing fuel prices in this way provides the necessary incentive for consumers and industries to use them more efficiently and emit fewer greenhouse gases (GHG). As renewable sources of energy become relatively more affordable, the tax could encourage industries to invest in the development of low carbon fuels and infrastructure, such as wind and solar. The Ministry of finance in the Canadian province of British Columbia, where a carbon tax was recently introduced, estimate that it will save three million tons of CO₂ each year, equivalent to taking almost 800,000 cars off the road.¹

It is generally agreed that carbon taxes work best when they are broad-based and increased incrementally over a number of years. Since most of the tax burden would ultimately fall on consumers, it is considered to be a regressive tax. To make the tax fairer, direct government intervention would be required to ensure that producers do not pass the costs on to consumers, which can be achieved through price regulations or by providing a financial dividend to citizens.²

In light of the impending funding gap for climate change mitigation and adaptation, recent reports have gone beyond using the tax to reduce emissions and have focussed on how much additional revenue the tax could raise.³ Potential incomes are largely dependent on how widely the tax is implemented, the level of taxation introduced, and the proportion retained by the national governments responsible for collecting the revenues.

Figure 14: CO₂ emissions from international marine and aviation bunkers



Note: CO₂ emissions from international marine and aviation bunkers have increased by more than 65% between 1990 and 2009.

Source: International Energy Agency, CO₂ emissions from fuel combustion: Highlights, 2011, pp. 61, 64.

The tax is applied according to how much CO₂ a given quantity of fossil fuel would emit when used, with higher taxes levied on more polluting fuels. If applied across all OECD countries, a tax of \$25 per ton of CO₂ emissions could raise \$301bn.⁴ If national governments redistributed only a quarter of this revenue for international climate finance purposes, it would still raise over \$75bn each year.⁵ The impact on consumers would be minimal, however, as a tax at this rate might only increase the price of gasoline by less than 10 cents (US) per litre.⁶ However, there is nothing to prevent policymakers from pricing carbon at a much higher rate in order to generate more revenue.

Maritime and aviation fuel taxes

Due to the international nature of their activities, emissions from the shipping and aviation industries are not necessarily included in the emissions figures for individual countries, and are neither measured nor limited under the Kyoto Protocol. Currently there is no mechanism to account for the environmental cost of emissions from fossil fuel use in these sectors. Together, emissions from international shipping and aviation represented approximately 3.5% of world CO₂ emissions in 2009 [see figure 14].⁷ These shares are expected to rise significantly over coming years with estimates suggesting that emissions from the two sectors could triple by 2050.⁸

Like nationally collected carbon taxes, the imposition of a fuel levy on international transportation reflects the 'polluter pays' principle and can raise significant funding for climate change. But shipping and aviation industry levies could also yield additional revenue for developing countries. In line with the principle of 'common but differentiated responsibility',⁹ a universal fuel levy on international transportation would have to include a rebate for developing countries. A recent report by the World Bank found that a globally-

implemented levy based on a carbon price of \$25 per ton of CO₂ could raise \$12bn a year from aviation and \$26bn from shipping by 2020. Compensating developing countries for the economic harm they might suffer from such charges is estimated to require up to 40% of global revenues, leaving **\$23bn** or more for climate finance or other uses.¹⁰

If combined with ticket levies on international air travel [see box 16], carbon taxes on OECD countries and the maritime and aviation industries alone could raise up to **\$108bn** every year – significantly more than the amount required to finance the entire Green Climate Fund currently being established under the United Nations Framework Convention on Climate Change (UNFCCC) Cancun Accords (2010).¹¹

Carbon taxes are often presented as a favourable alternative to carbon trading, which is another market-based approach to delivering cuts in emissions from global energy use [see box 17]. Taxation is widely considered to offer more price stability and predictability, greater ease of control by governments, and a simpler instrument to implement than the highly complex and controversial carbon trading schemes that are currently in existence.¹² Steadily increasing carbon fees on fossil fuels may also play a useful role in incentivising energy efficiency and reducing excessive energy consumption, as well as offering many related benefits such as reducing dependence on foreign oil, stimulating advances in low-carbon energy technology, and facilitating job growth in low-carbon energy and energy conservation industries.

In the longer term, however, carbon taxes are not a silver bullet that can solve the problem of climate change by themselves, and they can do little to address the way that fossil fuels are 'locked in' to industrialised economies or the fundamental power dynamics inherent in current production and trade patterns.¹³ As many environmental groups attest, the real solutions to climate change require massive investments in renewable energy in all countries and a significant reduction in fossil fuel energy consumption, particularly in the industrialised world.

How much revenue could be mobilised?

National carbon taxes applied to OECD countries

A tax of \$25/ton of CO₂ emissions applied across all OECD countries would raise \$301bn each year.¹⁴ Making only a quarter this available could raise almost **\$75bn** each year for climate finance.¹⁵

Maritime and aviation taxes

A levy of \$25/ton of CO₂ emissions applied across these industries could raise \$38bn each year. Given the need to provide rebates for developing countries, it is feasible that at least **\$23bn** of this revenue could be allocated to climate finance for developing countries each year.¹⁶

Ticket levy on international flights

A levy of \$6 per economy ticket and \$62 per business/first class ticket could raise up to **\$10bn** annually.¹⁷

Total potential revenue: **\$108bn** each year.

Box 16:

Taxing international air travel

An additional option is a ticket levy on all international air travel. While this is not a carbon tax and would not have a mitigation effect (as it has been proven not to impact the market in air travel), it does reflect the 'polluter pays' principle common to carbon fee proposals. The ticket levy has the advantage of rapid implementation at minimal cost, and could raise significant revenue for climate finance.

A ticket levy on international aviation has significant international support from the least developed group of countries who continue to push for its introduction in international climate negotiations. The proposed International Air Passenger Adaptation Levy would simply be collected by airlines from their passengers at the point of sale, with some of the revenue returned to airlines for the costs of administering the system.

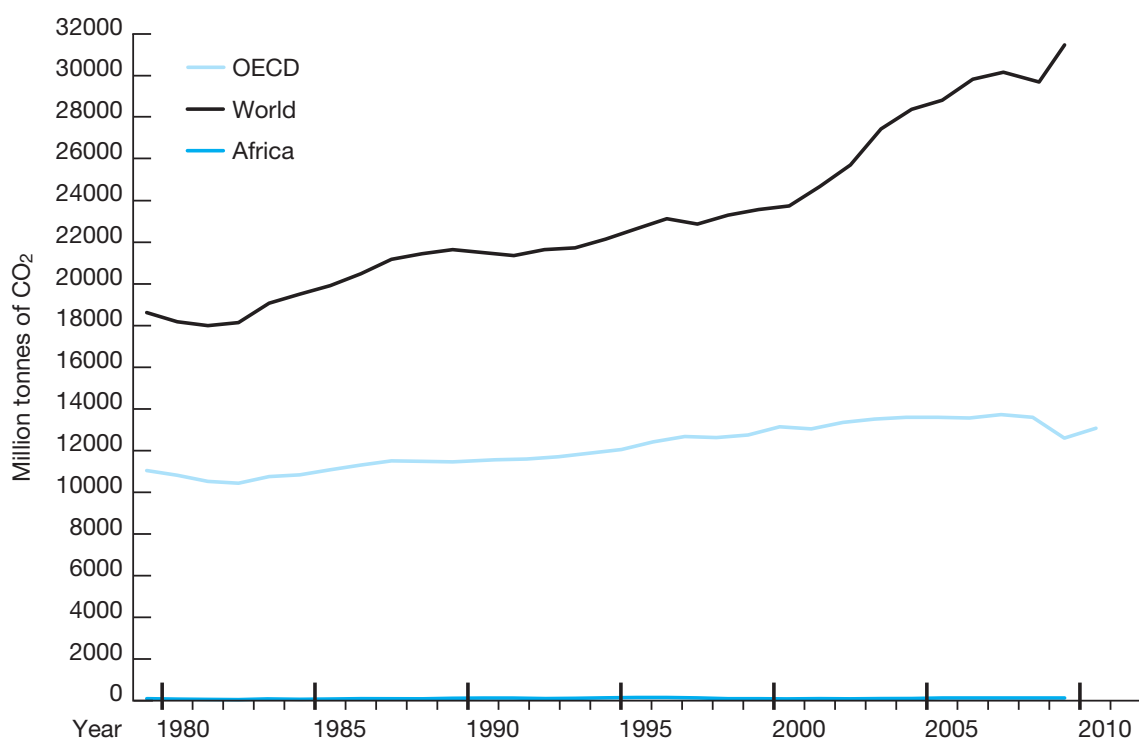
A version of the levy is already being successfully implemented in France, where all passengers leaving the country are charged a "solidarity contribution" (€1 for European flights, €4 for international flights, €10 for business/first class). The fee has enabled France to generate an extra €160 million (US\$216) in conventional aid in 2009, of which 90% was dedicated to the UNITAID international purchasing facility aimed at combating major pandemic diseases in the developing world. According to a report by the UN Secretary-General's High-level Advisory Group on Climate Change Financing, a levy of \$6 per economy ticket and \$62 per business/first class ticket would raise up to \$10bn annually.¹⁸

Time to act on climate taxes

With diminishing hopes for an effective post-Kyoto agreement and no significant reductions in global emissions on the cards, civil society is desperately calling for more effective action on climate change. There is now growing support for the role that carbon taxes can play in climate mitigation from many leading scientists, environmental groups, economists and high-profile figures including Al Gore and Nicholas Stern. NASA scientist James Hansen has also become a prominent advocate of a revenue-neutral carbon tax as an alternative to cap-and-trade and offset schemes, which he proposes should be collected from fossil-fuel companies at the point of first sale and distributed equitably to the public as a monthly 'dividend' or 'green check' so that families can afford the energy they need during the transition to a clean energy future.¹⁹

While implementing legislation for a flat carbon tax across all energy sectors is difficult to achieve, various types of carbon fees have been introduced throughout the world, including several in Northern European countries such as Finland and Sweden. The Canadian province of British Columbia implemented a carbon tax in 2008, and Australia implemented the tax in the form of a 'carbon price mechanism' in July 2012 – described as one of its biggest economic reforms in a decade, and the most comprehensive carbon price scheme outside of Europe.²⁰ China is among a number of countries considering introducing the levy, and in the US – now the second largest emitter of CO₂ after China – Members of Congress have also introduced several legislative proposals for pricing carbon.²¹

Figure 15: CO₂ emissions from consumption of energy 1980–2010



Source: US Energy Information Administration (International Energy Statistics database).

Fuel levies

A fuel levy would technically be much simpler to implement than other carbon taxes, and various international discussions have taken place to determine how to introduce them. The levy would be charged at all fuel bunkers in ports around the world, to be collected and redistributed by the international representative bodies for the maritime and aviation sectors – the International Maritime Organisation (IMO) and the International Civil Aviation Organisation (ICAO). Any legal barriers to the tax could easily be overcome with an international agreement under the UNFCCC negotiations. Universal implementation would ensure equal treatment of operators of all nationalities, while also making evasion difficult.

The EU recently implemented plans to levy emissions of most flights that land or depart from Europe from 1st January 2012 – a measure the airline industry and a large group of countries has fiercely resisted.²² China in particular has strongly opposed the EU's move, claiming that it is unfair, illegal or both, and breaks away from the basic legal framework of the UNFCCC and Kyoto Protocol.²³ Measures discussed by a group of nearly 30 countries opposing the carbon tax scheme, including the US, China and India, considered sanctions against European airlines or the opening up of a trade war.²⁴ The International Air Transport Association also claimed that the EU's scheme may undermine a global solution to curb aviation's environmental damage.²⁵

Funding international climate programs

Since the Cancun climate talks in 2010, various types of carbon taxes have been proposed by policymakers as innovative ways to finance climate change mitigation and adaptation in developing countries. The Government of Switzerland are among those who have been calling for carbon fees to be applied globally and collected by an independent agency, albeit at a much lower rate and with substantial rebates provided to low-income countries.²⁶ While international agreement on how governments could implement these taxes universally remains an obstacle to progress, it may be more feasible for

governments to act unilaterally and implement the tax on a national level.²⁷ However, it remains imperative that a proportion of carbon tax revenues, whether collected nationally, regionally or globally, are directed to finance international climate programs such as the UN's Green Climate Fund for the most vulnerable nations.²⁸

Campaigners have a long way to go before the various 'climate tax' options are acknowledged by policymakers to be viable alternatives to the highly flawed carbon trading schemes that currently monopolise the emissions reduction debate. But with limited options and time for effective action fast running out, civil society must step up their advocacy for carbon taxes as an important policy tool for reducing climate change and financing mitigation and adaptation programs.

Box 17:

False solutions to climate change

The following text is taken directly from the booklet 'Hoodwinked in the Hothouse: False Solutions to Climate Change' (Second Edition, Published July 2010), reproduced with kind permission from Carbon Trade Watch and Rising Tide North America. The complete publication is available at: www.carbontradewatch.org or www.risingtidenorthamerica.org

Part I: Cap and trade

The practice of carbon trading was implemented by the Kyoto Protocol as a strategy for tackling climate change, while allowing business-as-usual in industries that profit most from the use of fossil fuels. Essentially, governments made carbon pollution a market commodity by issuing tradable pollution permits. As the theory goes, the amount of permits issued would decrease year by year and carbon emissions would be reduced correspondingly.

The world's largest cap and trade system is in Europe and it has been an unmitigated failure, beset by fraud and market manipulation. The market includes large industrial power stations, plants and factories, which comprise just under half of Europe's total CO₂ emissions. Over 90% of permits are issued free of charge, yet some power companies have raised prices to "compensate" for the costs of the scheme, resulting in windfall profits expected to reach \$80bn by 2012. At the same time, a majority of companies have received more permits than their actual emissions, leading to bargain-basement prices for the remaining permits and little incentive to limit emissions. To make matters worse, emissions monitoring is woefully inadequate: Nearly half the emission sites that purchase carbon credits in Europe are not satisfactorily monitored.

Proponents say these problems can be fixed, but there are more fundamental issues. With short-term reductions in carbon emissions relatively inexpensive in carbon trading markets, there is little incentive toward crucial long term changes and investments that will be needed to create a post-carbon economy. Furthermore, because cap and trade systems leave everything to the market, they can exacerbate pollution inequities. For example, the US sulfur dioxide trading market has led to increases in pollution in some low-income communities and communities of color as industries decide to concentrate pollution in areas with less rigorous environmental enforcement and lower "political costs."

Most troubling, cap and trade creates an experimental new system of private property rights. Corporate balance sheets and legal statutes record carbon permits as property in the same way government-issued patents or land grants are accounted for. When the most powerful actors in society are given additional property rights, their ability to shape our future is further entrenched. The vast majority of carbon trades are made by either energy producers seeking protection from fossil fuel and currency price fluctuations, or by specialist traders seeking speculative profit, rather than by companies concerned with meeting their “caps.” Cap levels and trading rules are the product of endless lobbying by companies and countries trying to retain their high allowances.

Market analysts widely expect the carbon market will become the largest commodity market in history. At a time when poorly understood, experimental markets dominated by powerful interests have thrust millions of households into foreclosure, with the world in the worst global recession in decades, do we really want another opaque commodity trading market?

Europe intends to fill some of the holes in the system – for instance, by auctioning off some permits rather than just giving them away. The fact remains that carbon trading does not address rising pollution levels, it simply hands over a crisis to be played out in the marketplace.

Part II: Carbon offsets

Carbon offsets are a trick designed to make it cheap and easy for polluting companies and countries to meet their emissions reductions requirements, or for individuals to assuage their guilt about their lifestyles. Instead of actually reducing pollution, they can pay for a carbon “reduction” project elsewhere. Offsets compound all of the problems of the cap and trade system – literally a license to pollute beyond the allotted “cap.”

Nearly all of the technologies described in the booklet ‘Hoodwinked in the Hothouse: False Solutions to Climate Change’ have received funding as offsets, their associated abuses enabled by – and enabling – coal, oil and gas companies who wish to carry on polluting. Carbon trading is the architecture supporting all other false solutions.

The Kyoto Protocol’s “Clean Development Mechanism” (CDM) is the largest offset market in the world. As part of the Kyoto Protocol, it was established to allow wealthy polluting countries to “buy” cheaper carbon reductions in developing countries instead of making emission cuts at home. CDM is an attractive subsidy for big business, with reduction credits frequently being sold to support projects that would have happened anyway. The CDM is a billion dollar market and continues to expand into new methodologies and schemes.

This practice is anything but “clean” – it results in a net increase in pollution and displaces responsibility away from polluters. Countries and companies selling offsets have an incentive to over-report emissions reductions in order to obtain more credits to sell. This type of manipulation will be further encouraged by new speculative markets in carbon offsets, which have been pioneered by Goldman Sachs and other investment banks that have recently begun marketing carbon-backed securities and subprime (junk) carbon bonds.

Offsetting encourages us to think we can buy our way out of climate catastrophe, but the reality is that offsets are a way for large polluters to continue dangerous levels of pollution within a new legal framework. Not only are the vast majority of offset projects socially and environmentally unjust, they distract us from the larger structural and social changes that need to happen to create a sustainable society.

Learn more and get involved

Carbon Tax Centre: Launched in 2007 to give voice to Americans who believe that taxing emissions of carbon dioxide – the primary greenhouse gas – is imperative to reduce global warming. See the newsletter ‘A Convenient Tax’. <www.carbontax.org>

Carbonfees.org: A citizens website on the problems in cap & trade programs and the benefits of carbon fees, including sample letters for campaigning and a ‘whistleblower disclosure’ section. <www.carbonfees.org>

Carbon Trade Watch: Centring its work on bottom-up community-led projects and campaigns, CTW aims to provide a durable body of research on climate change and environmental policies. <www.carbontradewatch.org>

CDM Watch: An initiative of international NGOs to provide an independent perspective on individual Clean Development Mechanism (CDM) projects and the political decision-making process affecting wider carbon market developments. <www.cdm-watch.org>

Friends of the Earth: See the FOE campaigning activities on global climate change, including the reports ‘A Dangerous Obsession (2009)’, and ‘Clearing the Air (2010)’. <www.foei.org>

Global Policy Forum on Energy Taxes: Resources page of articles related to energy taxes which could raise revenues that can be earmarked for further investment in renewable energy sources. <www.globalpolicy.org/global-taxes/energy-taxes.html>

The International Energy Agency (IEA): See the World Energy Outlook publications and World Energy Statistics for the latest data on fossil fuel usage. <www.iea.org>

Report of the Secretary-General's High-level Advisory Group on Climate Change Financing: The final report by the United Nations on new, innovative and additional sources for the long-term financing of climate change mitigation and adaptation in developing countries. <www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup>

United Nations Framework Convention on Climate Change (UNFCCC): See the essential background pages for information on the international treaty and the Kyoto Protocol, including introductory and in-depth publications. <www.unfccc.int>

Notes

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9. Cancel unjust debt

The unconditional cancellation of all unjust and unpayable developing country debts is essential to achieve a more equitable distribution of the world's financial resources.

Governments in low- and middle-income countries are indebted to the tune of over \$4tn dollars, and spend more than \$1.4bn every day repaying these debts. On average, developing countries are returning over 400% more in debt service repayments than they receive in aid.

Campaigners demand that at least \$400bn should be cancelled for around 100 countries if they are to meet the basic needs of their citizens. However, cancelling illegitimate 'dictator debts' alone – estimated at \$735bn – could free up **\$81bn** a year for developing countries.

Current progress on debt cancellation remains dangerously slow. A new international debt work-out mechanism is urgently needed to resolve sovereign debt crises and disputes in a fair and transparent manner.

There is also an urgent need for stronger rules that will ensure more responsible lending and borrowing in the future, in order to prevent the accumulation of further unsustainable and illegitimate debts.

Unjust and unpayable sovereign debt is an ongoing problem in many low- and middle-income countries where it often diverts huge sums of public money away from government spending on vital welfare and social services.

These debt repayments not only hamper economic development but also facilitate a significant transfer of financial resources from poor countries to wealthy creditors in the North. As a key part of the redistributive measures highlighted in this report, this counter-productive flow of the world's financial resources must be reversed through the cancellation of all unjust and unsustainable debts in developing countries.

Developing countries currently have a total external debt stock of over \$4,076bn, which includes a large proportion of public and publicly guaranteed debt owed to international financial institutions (multilateral debt), the governments of rich countries (bilateral debt), as well as banks and private companies (commercial debt).¹ These huge government debts attracted large amounts of interest over the past three decades, and numerous countries have repaid many times their original loan value in interest. Developing countries currently spend over \$1.4bn every day repaying these debts, of which \$23m each day is paid by countries in sub-Saharan Africa alone.²

When compared to the latest figures for official development assistance (ODA), the developing world is returning over 400% more in debt service repayments than it is receiving in aid.³ Moreover, a significant proportion of these repayments go to the same countries and development agencies that provide ODA in the first place. The reality of these financial flows into and out of developing countries makes a mockery of aid donations and further highlights the urgent need for rich donor countries and multilateral institutions to drop all the unsustainable and unjust debt owed to them.

Rather than using a developing country's scarce financial resources to fulfil the demands of its rich lenders, these funds could be spent on social welfare and public services that are urgently needed. According to the World Bank, countries that received debt cancellation through multilateral debt relief initiatives increased how much they spent on poverty reduction by an average of 10% between 2001 and 2009. Despite the economic crisis, this spending was expected to increase further to reach an average of almost a tenth of these countries' GDP.⁴ Such figures are part of the clear and mounting evidence that debt cancellation has a hugely positive impact and is among the most effective forms of financing poverty eradication for the developing world – thereby contradicting the arguments of detractors who claim that money from cancelled loans will only line the pockets of corrupt regimes.

In the longer term, debt cancellation can contribute towards economic growth in the poorest countries and help reduce their dependence on aid. Removing debt can also help free governments from the policy diktats of the International Monetary Fund and World Bank – lenders who required a harsh restructuring of economies as a condition to lending in the past, similar to the austerity measures recently imposed on the populations of Greece and other European countries [see box 18]. Debt cancellation can therefore increase economic sovereignty and public participation in democratic processes, enabling people rather than international financial institutions to hold their governments to account.

Export credit agencies, commercial debt and vulture funds

Of the various types of debt, the substantial amounts that developing countries owe to

Table 7: Share of debt in developing countries from export credits

Country	Export credit debt (US\$ millions)	Total debts owed (US\$ millions)	%ECA debt
UK	3,196	3,314	96%
Belgium	1,479	1,954	76%
Netherlands	343	564	61%
Norway	85	104	82%

Source: Øygunn Sundsbø Brynildsen et al, Exporting goods or exporting debts? Export Credit Agencies and the roots of developing country debt, Eurodad, December 2011.

export credit agencies (ECAs) – quasi-governmental institutions that help finance business activity abroad – remains a major area of concern.⁵ According to research by Eurodad, on average 80% of poor country debts owed to Northern governments is a result of export credits, not development loans.⁶ In the UK alone, over £2bn (US\$ 3.1bn) from failed UK exports are being repaid by developing countries, making up 96% of ‘Third World’ debt to the UK. Developing countries including Indonesia, Kenya and Pakistan have paid an average of £700m (US\$ 1.1bn) annually to the UK’s Export Credits Guarantee Department over recent years.⁷

Although much of the focus of debt cancellation and debt relief has been on bilateral debts (a sum of money owed by the government of one country to the government of another country) and multilateral debts (when many countries owe debts to a central fund such as the IMF or World Bank), commercial debt accounted for the main bulk of developing countries’ overall debt burden prior to the global financial crisis in 2008. This huge proportion of public debt owed to private creditors has mainly affected middle-income countries, but many low-income countries have also been turning to international capital markets for loans as their economies developed. These debts were a key driver of the existing debt vulnerabilities faced in many developing countries today, yet private lenders are typically unwilling to take part in debt relief initiatives. Although private lending dramatically decreased in the wake of the financial crisis, private debt flows are already resuming and expected to continue to grow. This could soon lead to a new wave of illegitimate debt for poorer countries and increased debt vulnerability, especially with the weaker regulation of private debt and in the absence of binding responsible lending standards.⁸

A further problem is that so-called ‘vulture funds’ have made huge profits by purchasing the outstanding private debts of developing countries and aggressively pursuing their governments through the courts for repayment. Often this has meant taking money from countries in a state of extreme financial distress that are already unable to meet the minimal obligations of their people for basic welfare and services. According to the World Bank, the top 26 vulture funds have managed to collect \$1bn from the world’s poorest countries, and still have a further \$1.3bn to collect – equivalent to more than the entire UN appeal for the famine in Somalia in 2011.⁹

Reckless lending, unsustainable and odious debt

The definitions currently used by donors to determine whether a country’s debt is ‘unsustainable’ and therefore eligible for debt cancellation fail to take into account the social and human cost of debt burdens, or the past failure of creditors to lend responsibly.¹⁰ Under the current definition, ‘debt sustainability’ is narrowly defined without taking into account urgent demands on public funds, such as welfare provision. This inhibits governments in many developing countries from meeting the basic needs of all their citizens. It is vital that a definition of sustainability based on human need is adopted

in order to determine how much more debt cancellation is actually required, and that truly 'unsustainable' debts are cancelled as a matter of principle.

Jubilee Debt Campaign estimates that at least \$400bn should be cancelled for around 100 countries if they are to ensure that the basic needs of their citizens can be secured through the provision of essential services.¹¹ This could result in a total of **\$44bn** being made available for public spending in these countries every year.¹²

Much of the debt that poor countries are expected to repay can also be considered odious or illegitimate, meaning that the loans were made irresponsibly and did not benefit the populations of developing countries, hence they should not be held liable for the outcome. Although illegitimate debt has no existing definition in law, there is much academic and legal literature on the issue which focuses on creditor responsibility and includes loans made to oppressive regimes; to known corrupt officials; for ill-conceived or overpriced projects; or granted on unacceptable terms, such as usurious interest rates.¹³

A narrower concept is odious debt which refers to an oppressive regime which uses the money for purposes other than the "needs and interest" of the country. The proceeds of such loans were often stolen or wasted but successor governments are still expected to service them, while the creditors deny any responsibility – hence the term 'odious lending' has been considered a more accurate description.¹⁴ Among the many examples of odious or illegitimate debts, it was estimated in 2006 that more than \$735bn can be attributed to dictators in 32 different countries, representing more than a quarter of all developing country debt.¹⁵ Cancelling these illegitimate 'dictator debts' alone could free up a total of **\$81bn** each year for developing countries.¹⁶

Debt cancellation is an essential prerequisite for ensuring a more equitable sharing of global financial resources. Without removing these financial obstacles that pose such a huge drain on a country's resources, it will be impossible for many countries to strengthen their social protection and welfare systems, or achieve substantial progress in reducing poverty and deprivation. As the prospect of a global recession looms, the absolute and unconditional cancellation of all unjust and unpayable debts is more urgent than ever before, and should constitute an urgent priority for the international community in the drive to eradicate world poverty.

How much revenue could be mobilised

Much more research needs to be carried out to determine the proportion of debt that should be liable for cancellation, and how much additional revenue this would create for indebted governments. According to calculations by campaigners, at least \$400bn of debt should be cancelled for around 100 countries in order for them to secure the basic needs of their citizens.¹⁷ However, \$735bn of debt accruing to 32 different countries is attributed to dictators and deemed illegitimate [see table 8]. Cancelling this sum alone could raise \$81bn each year for developing countries.¹⁸

Cancelling illegitimate 'dictator debts': **\$81bn** per year for developing countries.

Table 8: Debts which can be attributed to dictators

Country	Dictator	US\$bn
Indonesia	Suharto	150
Iraq	Saddam Hussein	122
Brazil	military	100
Argentina	military	65
Philippines	Marcos	40
South Korea	military	30
Nigeria	Buhari/Abacha	30
Syria	Assad	22
South Africa	apartheid	22
Thailand	military	21
Morocco	Hassan II	19
Pakistan	military	19
Sudan	Nimeiry/al-Mahdi	17
Chile	Pinochet	13
Zaire/Congo	Mobutu	13
Peru	Fujimori	9
Ethiopia	Mengistu	8
Algeria	military	5
Iran	Shah Reza Pahlavi	5
Kenya	Moi	5
Mali	Tragore	3
Boliva	military	3
Somalia	Siad Barre	3
Paraguay	Stroessner	3
Malawi	Banda	3
Nicaragua	Somoza	3
Rwanda	Habyarimana	1
El Salvador	military	1
Liberia	Doe I	1
Haiti	Duvalier	1
Uganda	Amin	1
Togo	Eyadema	1
Total		\$735bn

Source: Joseph Hanlon, 'Illegitimate' Loans: lenders, not borrowers, are responsible, Third World Quarterly, Vol. 27, No. 2, 2006, see table 1, p. 217.

Action for international debt justice

Campaigners, development economists and even some donor countries have long championed progressive debt cancellation as a predictable, flexible and low cost method of financing poverty eradication. The global call to cancel 'Third World Debt' first reached a crescendo with the success of the Jubilee 2000 campaign. So far, over \$121bn of multilateral, bilateral and commercial debt has been cancelled for 32 countries as a result of consistent pressure from civil society, although this represents less than one tenth of the existing stock of public debt in developing countries.¹⁹

Existing debt relief procedures such as the Paris Club, the Highly Indebted Poor Countries initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) are slow, restrictive and exclusive processes that do not constitute a permanent solution. They are piecemeal in character and have been initiated and controlled by lenders without sufficient representation of debtor interests. Moreover, these approaches have been designed to protect the interests of creditors rather than seriously resolve the debt crisis for poor countries.

The HIPC initiative – the major international scheme for debt relief and cancellation – still imposes economic policy conditions on poor countries, such as public spending cuts, privatisation of basic services and trade liberalisation.²⁰ All of the existing debt work-out mechanisms are so ineffective that by 2011, a quarter of low-income countries that had obtained debt relief were at high risk of renewed debt distress.²¹ As mentioned above, another major limitation of current debt relief efforts is that the participation of commercial creditors is voluntary. Only 6% of all commercial debts covered by the HIPC initiative has been cancelled, while countries with larger commercial debt burdens are not even eligible for the HIPC scheme.²²

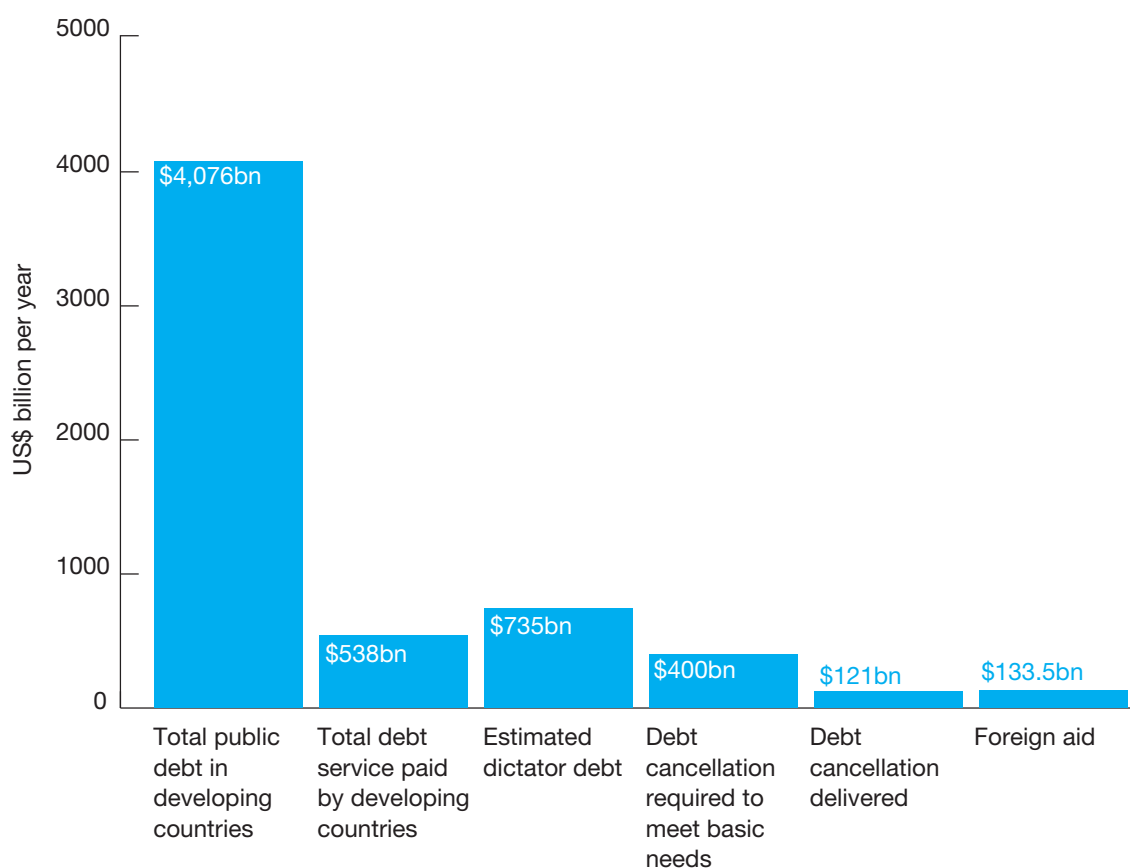
Many campaigners also continue to call on rich country governments to write off their outstanding export credit debts for low- and middle-income countries, especially those that are considered odious (i.e. found to originate in irresponsible lending, such as those taken on by dictators and similar regimes).²³ Although export credit debt has reduced under the HIPC initiative for 36 countries, much of the debts owed to Export Credit Agencies (ECAs) are from countries that do not qualify for the HIPC and therefore remain on the books.²⁴

New frameworks and mechanisms for debt cancellation

The specific principles upon which debt crises can be adequately resolved and future lending better regulated are already well established. For a start, any new lending must take into account the essential components of a responsible loan, ensuring that terms and conditions are fair, arrangements are transparent, human and environmental rights are respected, and repayment difficulties are resolved fairly and efficiently.²⁵ With the introduction of a new framework for responsible lending, the practice of attaching policy conditions to loans or debt relief (commonly referred to as 'structural adjustment') would no longer be a legitimate practice.

Many campaigners are calling for an international mechanism that allows debtors to legally contest the validity of debts they are currently repaying. Various calls for an international debt work-out mechanism or 'debt court' have been echoed by Eurodad, Jubilee Debt Campaign, the New Economics Foundation and others.²⁶ All of these proposals include the creation of an independent body empowered to resolve sovereign debt crises and disputes in a fair and transparent manner. Other proposed measures include a new definition of debt 'sustainability' that ensures debt repayments do not

Figure 16: Key figures in the debt justice debate



divert government spending needed to meet basic human development needs; and a comprehensive debt audit to establish ‘odious’ or ‘illegitimate’ debts.²⁷

A slow shift in policy

There are some signs of progress towards a fairer and more comprehensive system for debt cancellation. Several creditor governments have recently signalled a new interest in international sovereign debt work-out procedures and responsible lending guidelines, including Norway, Germany and the Netherlands.²⁸ In October 2006, the Norwegian government broke new ground by becoming the first government to unilaterally cancel specific debt claims on the grounds that the loans in question represented “failed development policy”.²⁹ Furthermore, UNCTAD announced a three year project on the issue of responsible lending and odious debt in March 2009. The initiative, financed by the Norwegian government, brings together representatives from the private sector, civil society, official bodies and governments that in 2011 presented a draft set of guidelines for what constitutes responsible lending and borrowing practices.³⁰ The Group of 77 developing nations have also indicated strong support for an open, impartial and transparent debt tribunal at the UN Financing for Development Conference in 2008.³¹

After years of campaigning by civil society groups, a landmark law was passed by the UK government in April 2010 (made permanent in March 2011) to protect the poorest countries in the world from profiteering by vulture funds through UK courts, helping to ensure that public money given towards debt cancellation is not diverted to private investors.³² However, a legal loophole still exists in the UK law that allows vulture funds to exploit courts in the offshore tax haven Jersey and other UK Overseas Territories, and there remains a lack of global standards for responsible lending that could constrain such aggressive litigations.³³

Despite these limited developments, progress on comprehensive debt cancellation remains dangerously slow. Many poor countries are still labouring under unjust and unsustainable debt burdens, and creditor-controlled debt relief schemes continue to impose various forms of austerity and economic restructuring on debt-stricken nations. According to the IMF, one out of three low-income countries is in debt distress or at high risk of debt distress – a figure that would be far higher if human needs are factored into the equation.³⁴ Now that sovereign debt crises are reverberating across Europe, the same pattern that has afflicted the Global South for decades is being repeated in high- and middle-income countries – the public are being forced to pay for private debt that they were not responsible for creating [see box 18]. Given the shared experience of these damaging financial burdens in all countries, it is time for campaigners to place their demands for debt justice at the heart of any strategy for international financial redistribution.

Box 18:

Austerity and the global debt crisis

The text below is taken directly from a briefing by the Jubilee Debt Campaign titled: Private Debt, Public Pain – What the Third World Debt Crisis Means for Europe Today, published in December 2010. The full briefing is available online at <www.jubileedebtcampaign.org.uk>

The austerity measures being implemented across Europe in response to the financial crisis are not a new idea. They have been the standard response to financial crises over the last thirty years, particularly in the developing world. In the early 1980s Zambia, like many southern countries, suffered from a financial crisis after a decade of lending by foreign banks and a sudden increase in US interest rates. The IMF bailed out the banks by lending to keep Zambia from defaulting on its debts. But in return the IMF foisted a programme of cuts in government spending and liberalisation on the Zambian economy.

Cuts in government spending contributed to Zambia suffering from a severe recession for much of the 1980s and 1990s. By 1995, the Zambian economy had declined by more than 30% on 1980 levels, whilst government expenditure had been cut in half. Yet the cuts in spending failed to reduce Zambia's debt. When the IMF intervened in Zambia in 1983 the government's foreign debt was 75% of GDP. By 1995 it had doubled to 150%. At the same time Zambia reduced government expenditure at a rate "virtually unmatched in Africa" and was praised by the IMF and World Bank for doing so. The same austerity medicine applied in Latin America and Africa in the 1980s and 1990s was used in Asia following the financial crisis in 1998. In the run-up to 1997, countries such as Thailand and Indonesia had deregulated their financial sectors, allowing huge amounts of foreign private lending into their economies. Their governments actually enjoyed budget surpluses.

When the private boom bust, however, the IMF was called in to bail out foreign private lenders and set conditions on economic policy. Thailand and Indonesia were made to cut government spending and try to increase government revenue. The result was huge economic decline. The Indonesian economy shrank by 13% in 1998, the Thai economy by 9%.

The UK government is now following similar policies. The immediate response of the UK government to recession was to allow spending to increase to partially

offset the collapse in the private sector. As the country comes out of recession, the government has started to impose swingeing cuts in public spending. As happened in Zambia, Thailand and Indonesia, these cuts could be self-defeating by pushing the UK back towards recession and so fail to reduce the deficit. The lesson from the global South is that cutting public spending does not necessarily reduce public debt.

Ireland's private sector lending spree was even larger than the UK's, running up an estimated private debt to foreign lenders of 600% of GDP by 2008. Just like Asian countries before their financial crisis, Ireland had government budget surpluses in the years leading up to the recession. When the crisis hit, the Irish government bailed out the private banks, massively increasing its debt liabilities. But it also immediately started trying to reduce public spending, pushing the economy further into recession.

Again, the cuts became largely self-defeating as the ensuing recession increased the relative size of government debt, and reduced its ability to pay. This is why Ireland is once more in crisis.

The logic behind the cuts

Drastic measures to reduce government spending are a common theme of debt crises from Zambia to Indonesia to Ireland and the UK. These austerity measures tend to take very similar forms.

Through the 1980s and 1990s it became apparent that the IMF and World Bank force a standard set of policies on countries which they bail out. These standard policies became known as the "Washington Consensus". As well as reductions in public spending they include:

a) Regressive tax changes – increase taxes which are charged at a flat rate and increase the number of taxpayers, whilst keeping low or reducing taxes on income and trade. This means an increase in so-called regressive taxation, which places a greater burden on the poorest, and a decrease in progressive taxation, which places a greater burden on the richest.

Through the 1980s and 1990s Pakistan implemented several structural adjustment programmes from the IMF and World Bank. One of the policies introduced was to increase sales taxes whilst reducing taxes on imports. As a percentage of tax revenue, sales taxes in Pakistan increased from 7% in 1980 to almost 30% by 2000. Overall, taxes increased by 7% for the poorest households, whilst falling by 15% for the richest.

In the UK the main tax increase has been in its sales tax – VAT – a flat tax which is paid by everyone, and disproportionately affects the worse off. In contrast, the standard rate of income tax in the UK remains at its lowest level since the Second World War.

b) Corporate deregulation and tax breaks – remove regulations and taxes on multinational companies. A 2005 survey of IMF and World Bank supported Poverty Reduction Strategy Papers in low income countries found that 78% include measures to deregulate or give tax incentives to multinational companies. In the UK, the main rate of tax on company profits is being reduced from 28% to 24% over four years.

c) Welfare cuts – remove government payments which protect the poor. In the UK it is estimated that the poorest 40% of the population will lose over 1% of their income solely through cuts in welfare payments over coming years. Even in the poorest

countries in the world, which have struggled to ever afford similar kinds of welfare payments, payments to the poor have been cut in various ways through austerity measures. For instance, IMF and World Bank programmes have often included introducing user fees for basic services such as health and education. In Zambia in the 1990s user fees for health services were introduced. By 1994 the World Bank was reporting that outpatient attendance in urban Lusaka had fallen by 60% and that “vulnerable groups seem to have been denied access to health services”. Despite this, the Bank continued to push for increased use of user fees.

d) Privatisation – a further key requirement of the Washington Consensus has been to privatise public companies and services whilst removing government support for strategic industries. IMF and World Bank-pushed privatisations have included banks, mines and water utilities. In the UK, the same sweep of privatisations happened in the 1980s and 1990s. Further privatisations continue today with the abolition or privatisation of quangos.

It is important to note that these policies were not only economically damaging to countries in the global South, they were also undemocratic. They essentially removed power from ordinary people and made ‘debtor’ governments accountable to international institutions and rich countries. This loss of sovereignty is exactly what Irish activists fear today.

Learn more and get involved

Debtweek.org: A week of global action against illegitimate debt, born at the World Social Forum in Nairobi in 2007. <www.debtweek.org>

The Debt Threat – How Debt is Destroying the Developing World: An interview with author Noreena Hertz with Democracy Now! on 13th January 2005 when the Paris Club of rich creditor nations reached an agreement to temporarily freeze debt repayments following the tsunami. <www.democracynow.org/2005/1/13/the_debt_threat_how_debt_is>

Defuse The Debt Crisis: Campaigning for a structural solution to the crisis of unpayable and illegitimate debts in both rich and poor countries through a fair and independent Debt Court. <www.defusethedebtcrisis.org>

Committee for the Abolition of Third World Debt (CADTM): An international network of individuals and local committees that offers a detailed analysis of the origins and consequences of debt in the Periphery, and of the technical and political options for its cancellation. <cadtm.org>

European Network on Debt & Development: A network of 54 non-governmental organisations from 19 European countries working on issues related to debt, development finance and poverty reduction. See the debt overview for links to resources. <www.eurodad.org>

International Debt Observatory: A tool of exchange of knowledge, analyses and research on debt issues, born at the 2005 World Social Forum in Porto Alegre, Brazil. <www.oid-ido.org>

Jubilee Debt Campaign UK: Based in London, JDC is demanding an end to the scandal

of poor countries paying money to the rich world, and 100% cancellation of unpayable and unjust poor country debts. <www.jubileedebtcampaign.org.uk>

Jubilee USA Network: An alliance of more than 75 religious denominations and faith communities, human rights, environmental, labor, and community groups working for the definitive cancellation of crushing debts to fight poverty and injustice in Asia, Africa, and Latin America. <www.jubileeusa.org>

Odious Debts: Read the book online by economist Patricia Adams that answers the questions; who lent what and to whom, where did the money go, what did it do there, and where is it now? <www.journal.probeinternational.org/odious-debts/read-odious-debts-the-book>

Third World Debt – A Continuing Legacy of Colonialism: South Centre Bulletin #85 from 2004 that explores the origins and the legal aspects of developing countries' debt and emphasizes its inequitable, even illegal nature. <www.southcentre.org>

Notes

1. Note: Private non-guaranteed debts are also included in this figure, as there is a growing recognition by analysts that private debt and contingent liabilities can be of significant relevance to a country's overall debt vulnerability. For example, private debts can be transferred to the stock of public debt when countries experience a financial crisis. In both rich and poor countries, domestic debts are growing rapidly and can also become a significant liability for governments. However, domestic debts are not included in the \$4tn figure as they do not lead to capital leaving the country. For figures see World Bank, Global Development Finance 2012, External Debt of Developing Countries, Washington, D.C., 2012, p. 40.
2. Note: Figure calculated as total of principle repayments plus interest payments for 2010, which equals \$537,844m in 2010 or \$1,473m a day. See World Bank, Global Development Finance 2012, op cit, pp. 41, 53.
3. ODA in 2011 = \$133.5bn (see section in this report on ODA); combined principle and interest repayments on total long term external debt in 2010 = \$538bn (World Bank, Global Development Finance 2012, op cit).
4. International Development Association and International Monetary Fund, Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation, 14th September 2010, p. 11.
5. Export credit agencies provide loans or guarantees to businesses in their own country in order to help them secure lucrative contracts abroad. In many cases, these contracts are with governments in developing nations and can include large-scale infrastructure projects, fossil fuel extraction or arms deals. While the ECA-backed businesses benefit from increased sales, the projects can fall outside of the immediate development needs of the recipient nation and are frequently criticised by human rights campaigners and environmentalists. Moreover, if the developing country is unable to pay for the work carried out, the ECA will use public funds to pay their domestic companies instead. As ECAs are often quasi-government agencies, the unpaid fees ultimately become part of the developing country's bilateral (government-to-government) debt stock. For further information, see ECA Watch, <www.eca-watch.org>
6. Øygunn Sundsbø Brynildsen et al, Exporting goods or exporting debts? Export Credit Agencies and the roots of developing country debt, Eurodad, December 2011.
7. Jubilee Debt Campaign, The Department for Dodgy Deals: Ending the UK's support for toxic debt, January 2011.
8. Wiert Wiertsema and Oygunn Brynildsen, 'Private debt flows to sovereign borrowers: An opportunity for independence or a threat to development?', in Eurodad and CRBM International Conference, The private turn in development finance: Effective for development?, Background paper, Rome, 18-20th May 2011.
9. Greg Palast, Maggie O'Kane and Chavala Madlena, 'Vulture funds await Jersey decision on poor countries' debts', The Guardian, 15th November 2011.
10. CIDSE, The New World Bank / IMF Debt Sustainability Framework: A Human Development Assessment, April 2006.
11. These figures are based on calculations by the New Economics Foundation. See Jubilee Debt Campaign, Unfinished business: Ten years of dropping the debt, May 2008, appendix 3, pp. 29, 39.
12. Note on calculation: The following figures refer to 'public and publically guaranteed' external debt only. In 2010, developing countries paid \$180bn servicing \$1,583bn of debt, which represented 11% of the total value of their debt stock (World Bank, Global Development Finance 2012, op cit). We therefore estimate that the annual combined savings for developing country governments is 11% of the total amount of debt cancelled. If \$400bn of debt was cancelled, 11% of this amount is \$44bn in potential savings.

13. Jubilee Debt Campaign, Unfinished business, op cit. For more detail see: Joseph Hanlon, 'Defining Illegitimate Debt: Understanding the Issues', Norway: Norwegian Church Aid, 2002. Also for legal case studies on illegitimate debt, see: Max Mader and André Rothenbühler (eds), How to Challenge Illegitimate Debt: Theory and Legal Case Studies, Aktion Finanzplatz Schweiz, Basel: November 2009.
14. Stephen Mandel, Odious lending: debt relief as if morals mattered, New Economics Foundation, September 2006, p. 16.
15. Note: The most recent figures compiled by Dr Joseph Hanlon for dictator debts are now out of date as, for example, much of the Zaire debt from Mobutu Sese Seko no longer exists and Iraq's external debt has been restructured, whereas Egypt has inherited a \$30bn debt from Mubarak and his predecessors. Individual country figures may have therefore gone up or down in recent years, but the total figure of \$735bn is still a reasonable guide for illustrative purposes. See: Joseph Hanlon, 'Illegitimate' Loans: lenders, not borrowers, are responsible, Third World Quarterly, Vol. 27, No. 2, 2006, table 1, p. 217.
16. Note on calculation: The following figures refer to 'public and publically guaranteed' external debt only. In 2010, developing countries paid \$180bn servicing \$1,583bn of debt, which represented 11% of the total value of their debt (World Bank, Global Development Finance 2012, op cit). We therefore estimate that the annual combined savings for developing country governments is 11% of the total amount of debt cancelled. If \$735bn of debt was cancelled, 11% of this amount is \$81bn in potential savings.
17. See footnote 11.
18. See footnotes 15 and 16.
19. As of 2010, \$76bn of debts have been cancelled under the HIPC initiative, \$33.8bn under the MDRI and additional debt relief of \$11.9bn has been provided by the Paris Club creditors. See IDA and IMF staff, 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation and Proposals for the Future of the HIPC Initiative', 8th November 2011, pp. 12-13.
20. Isabel Ortiz et al, Prioritizing Expenditures for a Recovery for All: A Rapid Review of Public Expenditures in 126 Developing Countries, United Nations Children's Fund (UNICEF), New York, 2010.
21. IDA and IMF staff, op cit, p.22
22. Jubilee Debt Campaign, Unfinished business, op cit, p. 28; IDA and IMF staff, 'Heavily Indebted Poor Countries...', op cit, p. 16.
23. Wiert Wiertsema, Export Credit Debt How ECA support to corporations indebts the world's poor, Briefing Note, 5th June 2008.
24. Jubilee Debt Campaign, Unfinished business, op cit, pp. 27-28.
25. Gail Hurley, 'EURODAD Charter on Responsible Financing', Eurodad, January 2008.
26. See Eurodad, 'A fair and transparent debt work-out procedure: 10 civil society principles', December 2009; Jubilee Debt Campaign, Unfinished business, op cit, p. 32; Nick Benton, 'Sovereign Debt Work-Out: Reform Needed', openDemocracy, August 2010; Jürgen Kaiser, 'Resolving Sovereign Debt Crises: Towards a Fair and Transparent International Insolvency Framework', Erlassjahr and Friedrich Ebert Stiftung, October 2010; Stephen Mandel, Debt relief as if people mattered: a rights-based approach to debt sustainability, New Economics Foundation, 2006; Defuse the Debt Crisis, Campaign for an International Debt Court, <www.defusethebtcrisis.org>
27. Ibid.
28. Gail Hurley, 'EURODAD Charter on Responsible Financing', op cit, p. 5.
29. Jubilee USA, 'Recent Developments on Odious & Illegitimate Debt', April 2008.
30. United Nations Conference on Trade and Development, Draft Principles on Promoting Responsible Sovereign Lending and Borrowing, Amended and Restated as of 26th April 26 2011, Geneva, Switzerland; UNCTAD, Promoting Responsible Sovereign Lending and Borrowing, Accessed October 2011, <www.unctad.info>
31. Sarah Edwards, A new debt crisis? Assessing the impact of the financial crisis on developing countries, Jubilee Debt Campaign, March 2009, p. 19.
32. Jubilee Debt Campaign, Latest News, 'VICTORY: Vulture funds law set in stone', 28 March 2011.
33. Jubilee Debt Campaign, 'Vulture Fund awarded \$100m in Jersey court', 4th November 2010.
34. IDA and IMF staff, op cit, p. 21.

10. Protect import tariffs

The lowering of import tariffs can reduce government revenues significantly, especially for poor countries that fund a major proportion of their state budgets through trade taxes.

If the Doha Round of world trade talks is completed, poor countries could lose **\$63.4bn** through reductions in import tariffs.

Bilateral and regional free trade agreements (FTAs) are expected to cause further significant losses in tariff revenues. For example, an FTA with the European Union could cost sub-Saharan African economies **\$2.6bn** per year.

The wider impacts of trade liberalisation lead to much greater losses in national income for developing countries, mainly due to its devastating impact on domestic agricultural and industrial production. Low-income countries lost a staggering **\$896bn** as a result of trade liberalisation in the 1980s and 1990s.

Rich nations and global institutions must stop compelling poor countries to liberalise their economies through the World Trade Organization or free trade agreements, and instead allow governments the policy space they need to regulate their national economies in accordance with development objectives.

Import tariffs (also called customs duties or trade taxes) are an important source of government revenue for developing countries. These taxes can also help stimulate the growth of infant industries and protect less advanced economies from cheaper and often heavily subsidised imports.

Even though import tariffs and other ‘protectionist’ measures played a crucial role in the economic development of industrialised nations, the sovereign right of developing nations to follow a similar path is being violated through the ‘free market’ mantra of trade liberalisation, which is compelling developing countries to dismantle these and other forms of economic protection.

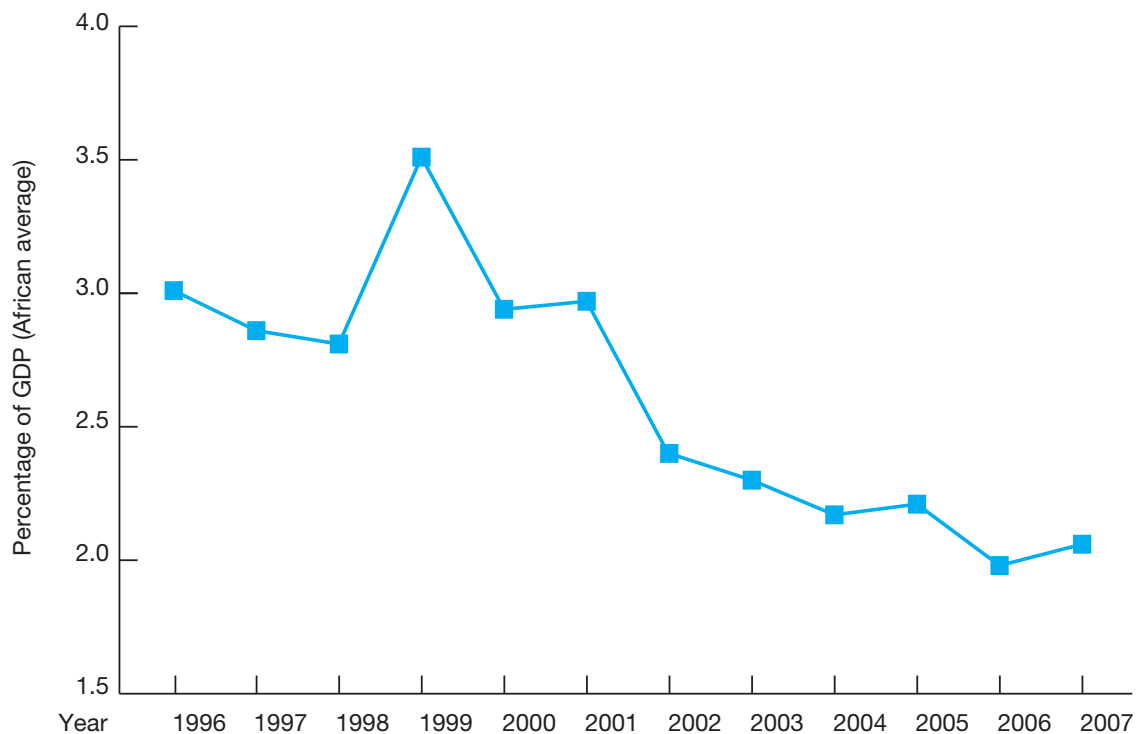
This unjust economic paradigm must urgently be replaced by a pro-poor approach to international commerce that respects the right of developing nations to choose trade policies that help promote their economic development. Allowing poorer countries to maintain taxes on foreign goods entering their borders can provide tens of billions of dollars in additional revenues – money that is critical if governments are to finance poverty eradication and social protection programs from their own resources.

Given the excessive influence of a ‘neoliberal’ or pro-market ideology over governments and international financial institutions in recent decades, the pressure for developing countries to liberalise their trade systems comes in many guises. For instance, the rules governing trade between the Global North and South are negotiated undemocratically within the World Trade Organisation (WTO); free trade agreements are signed between individual governments and groups of countries despite widespread opposition by civil society groups; and trade liberalisation is foisted upon developing countries by the World Bank and the International Monetary Fund (IMF) as a condition to financial assistance offered in the form of debt relief, loans and grants.

Under this tremendous pressure and left with few alternatives, cash-strapped nations are often forced to open up their borders to international competition by reducing import tariffs and other barriers to trade.¹ Doing so makes it easier and more profitable for producers in industrialised countries to export their goods, and presents new markets in the developing world for multinational corporations. Liberalisation is not necessarily a bad thing all the time for poorer countries either, as it can allow them to import goods that are helpful to their industrial development and that they do not produce themselves, such as machinery and technology. It can also provide exporters in developing countries with access to new markets, and lead to increased foreign investment.

But wholesale and rapid liberalisation can have an extremely harmful impact on low- and middle-income countries, particularly as the reduction in import tariffs significantly reduces essential government revenues. Although some free trade advocates argue that the loss of income is relatively small, research has contradicted this view and shown that tariff losses for developing countries are significant and can far outweigh the benefits of liberalisation.² Along with other free-market reforms imposed on poorer countries since the 1980s, the sudden lowering of trade barriers can also be part of a one-size-fits-all approach to economic policy that can devastate local industries, lead to massive job losses, and restrict the ability of governments to make policy decisions that are appropriate to their specific development needs.³

Figure 17: Trade taxes in Africa as a percentage share of GDP



Source: African Economic Outlook 2010.

Boosting state revenue

Whereas import tariffs account for less than 1% of government revenues in rich countries, many developing countries rely heavily on them to help fund their state budgets. This is because import duties are among the easiest to collect and less costly to administer than other forms of taxation, which is especially important for countries with a large informal sector and less administrative capacity. Some poor countries such as Bangladesh, Namibia and Senegal finance around a third of their entire state budgets through trade tariffs.⁴ In the case of Botswana, reliance on trade taxes is among the highest levels in the world but they are still one of the fastest growing economies in Africa.⁵

As free trade policies continue to be negotiated around the world, revenues from import tariffs have significantly declined in almost all countries. In 1995, customs revenues as a proportion of overall state revenue averaged 17% in low- and middle-income countries.⁶ By 2009, these revenues had reduced significantly for these countries to an average of 7%.⁷ For African countries alone, trade taxes declined by a third as a share of GDP between 1996 and 2007 [see figure 17].⁸ For many poorer countries, the loss in revenue from taxes on international trade has been extreme; in Zambia, for example, tariff revenues accounted for 36% of state revenue in 1995, compared to 8% in 2009. In Tunisia, the proportion dropped from 28% of state revenue in 1995 to 6% in 2009 [see table 9].⁹

To justify the elimination of import barriers and trade tariffs in the South, the International Monetary Fund (IMF) theorised that losses in customs revenue would be compensated by the introduction or increase of other domestic taxes on purchases, such as a Value Added Tax (VAT). However, comprehensive research by the IMF now demonstrates that low-income countries have only been able to recoup around 30% of what they have lost from reduced import taxes since the early 1980s.¹⁰ Compared to import tariffs, VAT is

Table 9: Decline in customs revenues as a percentage of government revenues 1995–2009

Country	1995	2009
Egypt	10%	5%
Ghana	24%	16%
Guatemala	23%	7%
India	24%	13%
Indonesia	5%	2%
Iran	9%	6%
Kenya	14%	10%
Malaysia	12%	2%
Monogolia	9%	6%
Nepal	26%	16%
Nicaragua	7%	4%
Pakistan	24%	8%
Paraguay	18%	7%
Peru	10%	2%
Philippines	39%	20%
Sierra Leone	39%	14%
Sri Lanka	17%	14%
Trinidad and Tobago	6%	4%
Tunisia	28%	6%
Uruguay	4%	3%
Zambia	36%	8%

Source: World Development Indicators 2011, The World Bank.

particularly ineffective at raising government revenues in countries with large informal sectors, and its collection requires a sophisticated administration process that is beyond the means of many poorer countries. Without appropriate exemptions in place for necessity goods, VAT can also be a regressive form of taxation that disproportionately affects those on lower incomes.¹¹

Despite the well-documented harmful impacts of liberalisation on developing countries [see box 19], multilateral and bilateral free trade agreements continue to impose severe restrictions on their income from tariffs. The ongoing multilateral negotiations within the Doha Round of the World Trade Organisation (WTO) could result in losses of **\$63.4bn** for developing countries through lost import tax revenues on non-agricultural goods alone – a figure that may have increased significantly in recent years with the growth in international trade volumes.¹² This sum is four times higher than what the World Bank predicts these countries would gain in increased trade if the Doha round of negotiations is successful.¹³

Controversial free trade agreements also continue to be negotiated between governments seeking new markets for their produce. For example, the Economic Partnership Agreements (EPAs) between the European Union (EU) and African, Caribbean and Pacific

(ACP) economies are expected to have a significant negative impact on fiscal revenues for the ACP countries as a result of eliminating customs duties on the imports of most EU products. A recent analysis of the impact of EPAs on African countries by the South Centre calculated that the financial benefits of easier access to European markets were far outweighed by heavy losses in government revenue from tariff reductions. Using a simple cost-benefit analysis, the study conservatively estimated annual net losses to exceed \$1.275bn for Africa's least developed countries, and **\$2.603bn** for all countries in sub-Saharan Africa.¹⁴

The wider impacts of trade liberalisation

Beyond the loss of revenues from customs duties, trade liberalisation can lead to even greater losses in national income for developing countries. Dismantling import tariffs and other barriers to trade leaves many farmers and local industries unable to compete with the flood of cheap imports that enter the country, often leading to factories closing, rising unemployment and lower incomes. In the case of agricultural imports, these negative impacts are exacerbated by the massive subsidies that governments in rich countries pay their farmers, which results in the overproduction and export of artificially cheap food to developing countries. As an additional blow, rich countries in the North still maintain their own import tariffs and other non-tariff barriers to trade in key sectors such as agriculture and textiles, making it difficult for producers in developing countries to export and sell their goods abroad [see section 6].

In the long run, the devastation caused to domestic industries by trade liberalisation can lead to substantial losses in Gross Domestic Product (GDP) for some of the poorest countries. According to research by Christian Aid, trade liberalisation cost 32 low-income countries across Asia, Latin America and sub-Saharan Africa a total of **\$896bn** over 20 years.¹⁵ Sub-Saharan Africa as a whole lost \$272bn during the 1980s and 1990s as a result of trade liberalisation – enough money to wipe out their debts and have sufficient left over to pay for every child to be vaccinated and go to school.¹⁶ When combined with debt repayments, capital flight and illicit capital flows, the effects of such revenue losses can cripple the economies of poor countries.

If the international community is serious about helping countries in the South to develop their economies and grow their way out of poverty, more must be done to help protect their infant industries and domestic producers from international competition, at least until they are robust enough to trade on an equal footing. As well argued by Ha-Joon Chang and other economists, the policies for industrial development employed by the now-developed countries – including Britain, the USA, Germany, France, Sweden, Belgium, the Netherlands, Switzerland, Japan, Korea and Taiwan – were not based on a laissez-faire ideology of free trade, but instead used protectionist strategies for key industries in the earlier phases of development. For low-income countries trying to develop their economies along similar lines to industrialised nations, trade liberalisation can be tantamount to 'kicking away the ladder' of protectionist tariffs and subsidies that the rich countries employed in their earlier development paths.¹⁷

In order for developing countries to enjoy the same benefits that rich countries have long possessed, they must be given the policy space to maintain their import tariffs and not come under pressure from developed countries or multilateral institutions to liberalise their economies, whether as a condition of free trade agreements or in return for financial assistance. In accordance with the principle of 'Special and Differential Treatment' in WTO negotiations [see below], sovereign nations should retain the right to raise tariffs in line with domestic strategies for economic development.

How much revenue could be mobilised

The following examples illustrate the significant gains that governments in developing countries could make if they are allowed to maintain tariff levels and regulate their national economies in accordance with their own development objectives.

- If developing countries were not obligated to reduce their tariffs within the Doha round of trade talks, they would be able to save more than **\$63.4bn** in existing annual government revenues.¹⁸
- Of the many bilateral and regional free trade agreements in operation or under negotiation, reforming the Economic Partnership Agreements (EPAs) alone could ensure that sub-Saharan African countries save an estimated **\$2.6bn** each year.¹⁹

The battle for trade justice

Despite the destructive social, political and environmental consequences of the pro-corporate model of economic globalisation, Northern governments continue to push free trade through the WTO and bilateral agreements such as the North American Free Trade Agreement (NAFTA), the Trans-Pacific Partnership trade accord (TPP), or the European Union's most recent trade strategy known as 'Trade, Growth and World Affairs'. As a result of this further liberalisation, trade tax revenues are set to continue to decline over the years ahead.

Since the Doha Development Agenda (or Doha Round) was launched in 2001, supposedly to enhance the equitable participation of poorer countries in world trade, WTO negotiations have repeatedly broken down and still remain inconclusive. At the heart of the impasse in negotiations is the debate over tariff cuts, which are felt to exact extreme demands on developing countries while being unfairly balanced in favour of rich industrialised nations. This is particularly the case in the negotiations on industrial goods.²⁰ Since most developing countries have quite high industrial tariffs, their tariffs will be cut far more steeply than the tariffs of developed countries, by up to 70% in some major developing countries compared to only around 25% for the industrialised nations.²¹ Developing countries will also be obliged to cut their agricultural tariffs by a further 36% if the Doha Round of talks is concluded, while the United States is trying to open up their service sectors even further to foreign ownership and competition.²²

Various concessions are negotiated for developing countries under the principle of 'Special and Differential Treatment', which is meant to address historical and structural considerations and re-balance the inequitable WTO rules towards development concerns. However these measures, such as duty-free and quota-free access to developed country markets, are widely held by campaign groups as being insufficient to address the structural inequality of the trading system. The lack of agreement surrounding some of these concessions was a key reason why the Doha meeting in July 2008 collapsed, and remains a major sticking point today. By the end of 2011, WTO members openly acknowledged at a Ministerial Conference – the WTO's highest decision-making body – that the talks had reached an impasse.²³ Now in its eleventh year, the Doha Round has few cheerleaders left among its members and some advocate winding up Doha completely in order to take on new agendas.²⁴

Whatever the outcome for the international trade negotiations, bilateral and regional trade deals generally demand even greater tariff cuts than those negotiated in the WTO. For example, the Least Developed Countries (LDCs) are exempted from many of the tariff reductions in WTO negotiations on agriculture, services and industrial goods. But in the Economic Partnership Agreements between the EU and the African, Caribbean and Pacific (ACP) countries, the EU is demanding that the ACP countries cut 80% of all their tariffs to zero.²⁵ With limited hopes of multilateral negotiations succeeding, the US and other countries are also now considering 'plurilateral' trade agreements with a select number of countries. This poses a further risk that developing country issues are dropped while those nations with the most resources pursue their own priorities.

Rethinking economic globalisation

By no means is everyone convinced that world prosperity is dependent upon the commandments of free trade and economic globalisation. Unjust trade rules and agreements have sparked widespread opposition amongst indigenous groups and campaigners in recent decades, most memorably at the 'battle of Seattle' when around 100,000 protestors rallied against the WTO Ministerial Conference of 1999. Today, unjust terms and bullying tactics by the powerful nations remains widely acknowledged by developing countries as a major impediment to the successful conclusion of international trade negotiations. Many civil society organisations call for fundamental change in the way trade rules are negotiated, and have long pushed to end the Doha round completely rather than lock in policies that will undermine the development prospects of countries in the Global South.²⁶

There are some signs that world leaders are beginning to rethink the neoliberal ideology of recent decades that has forced poor countries to open up their markets through drastic reductions in tariffs. At the Gleneagles summit in 2005, the G8 promised that in future they will not impose import liberalisation on weak economies. The Commission on Africa set up by Tony Blair also concluded that there should not be pressures on Africa to liberalise their imports before countries are able to withstand it. This sentiment was shared by former President Bill Clinton in 2008 when he said that global leaders "blew it" by forcing poor countries to liberalise their agricultural sectors through structural adjustment policies. In the wake of the global financial crisis, both Gordon Brown and Nicholas Sarkozy also stated that the Washington Consensus of free markets is now dead, referring to the set of policies that pressured developing countries to set tariffs even lower than those agreed at the WTO.

Recently, the WTO rules were slightly relaxed to allow least developed countries joining the WTO a little more policy flexibility in relation to their import taxes, although these changes do not affect the organisation's existing members.²⁷ However, there is little indication that governments are willing to enact fundamental changes to a global economic system based upon the pillars of free trade and international competition. In almost all countries, the basic stimulus to economic growth is seen to come from increasing access to overseas markets, rather than prioritising domestic job creation or considering alternative ways of growth and diversification that cater to citizens' essential needs.²⁸ 'Protectionism' remains a dirty word in the corridors of power, and workers and businesses are still described as 'standing in the way of progress' if they express worries about their trades being undercut by imports.

This is despite all the evidence that lowering tariffs and increasing world trade will not provide a lasting solution for job creation and economic growth, but will rather exacerbate the food, financial and climate crises that are engulfing the world [see box 19]. A dramatic change of paradigm is clearly needed if rich nations and global institutions are to stop forcing developing countries to liberalise their economies through the WTO or regional and bilateral trade negotiations. It is now more important than ever before that civil society and

mass social movements unite in a common cause to turn around the dominant agenda of economic globalisation based on unfettered world markets.

Box 19:

Rejecting the free trade dogma

For most mainstream economists, policymakers and corporate executives across the world, the belief in free trade is pursued with an almost religious fervour. Through international free trade agreements and policies, developing countries are increasingly locked into a cycle of unfair competition as all sectors of their economy – from agriculture to banking – are progressively deregulated and liberalised to facilitate access to firms from abroad. Justified by the theory of comparative advantage, each country is told to specialize in whatever they grow or manufacture best and purchase everything else from abroad, regardless of the social or environmental consequences. The implications are that communities and nations should abandon self-reliance, produce only a few items for export, and give up their sovereignty over national development strategies in return for the promise of more jobs, more goods and a higher standard of living.²⁹

Trade liberalisation has not always been achieved out of choice in developing countries. From the 1980s, conditions were attached to loans given to debt-stricken nations by the International Monetary Fund (IMF) and World Bank that enforced trade liberalisation as part of so-called ‘structural adjustment’ policies. The World Trade Organisation (WTO) established in 1995 has also forced developing countries to open their markets and create new opportunities for transnational corporations and foreign investors. Although the preamble of the WTO agreement stated that its purpose was to increase employment, reduce poverty, diminish inequality and promote sustainable development around the world through free trade, it has largely failed to deliver on these goals and instead brought about the opposite results in many countries.

Following the systematic reduction of import tariffs and a shift to export-oriented production, workers who produce basic commodities such as cereals, timber and minerals are more impoverished than ever as a flood of low-cost imports has crashed prices since the WTO’s launch. Food insecurity and malnutrition has increased as the land used to grow staples for basic needs is usurped by large producers, while displaced farmers move into cities and add to urban overcrowding, or move to fragile and less productive lands that quickly become overstressed. The frenzy to export has also undermined ecological sustainability as developing countries exploit natural resources, such as through forest clearing for timber exporting or palm oil production, cash crop exports that depend on polluting pesticides and fertilizers, or large fishing boats that destroy coral reefs and sea life.³⁰

The winners and losers

The fight against poverty is still being lost despite the massive growth in world trade and the promise that a growing economy will benefit the poor. World exports multiplied almost five times between 1990 and 2010 and income more than doubled, but progress on improving education, health and nutrition was slower after the year 2000 when economies around the world were booming than in the previous decade.³¹ Instead of generating income convergence between rich and poor countries as promised, free trade has exacerbated the income inequality between industrial and developing countries as well as between rich and poor within countries

worldwide.³² Even the growth benefits of trade liberalisation have been overstated; in the developing world, economic growth is lower than it was in the 1960s and 1970s before economic globalisation policies began to be pushed aggressively.³³

The primary beneficiaries of free trade are the corporate executives and shareholders of large multinational corporations (MNCs), around 500 of which control 70% of world trade. The combined sales of the top 200 corporations grew faster than overall economic activity between 1983 and 1999, reaching the equivalent of almost 30% of world GDP, yet these firms employ only three-quarters of 1% of the world's workforce.³⁴ The secondary beneficiaries of free trade are the governments of high-income countries who experience economic growth through the trade activities of their domestic corporations – again predominantly large MNCs and agribusiness firms, as opposed to the majority of small and medium-sized farmers and producers.

The purely market-driven or 'neoliberal' approach to economic and social policy that informs the strategies of the WTO, World Bank and IMF is clearly defunct and these institutions have long been in need of radical reform. In a globalised economy with huge discrepancies in the wealth and capabilities of rich and poor nations, it is essential that a more effective and inclusive global governance structure is established. As often stated by campaigners, this begins with putting trade firmly in its place so that it is viewed not as a goal in itself, but as a means to achieving broader social, environmental and economic development objectives. This requires a fundamental rethinking of the neoliberal model of global trade, as well as the myriad of related policies being implemented through the WTO and regional and bilateral trade regimes.

Learn more and get involved

Alliance for Responsible Trade: A coalition of US organisations campaigning for a different trade policy that serves first and foremost to promote equitable and sustainable development for all people. <www.art-us.org>

Alternatives to Economic Globalization: Edited by John Cavanagh and Jerry Mander, this book is a bold answer to critics who assert that the anti-corporate globalization movement does not have alternative proposals. Published by Berrett-Koehler, 2004.

Bilaterals.org: A collective effort to share information and stimulate cooperation against bilateral trade and investment agreements that are opening countries to the deepest forms of penetration by transnational corporations. < www.bilaterals.org>

Center of Concern: A faith-based organization providing information and analysis on economic justice issues. See the Rethinking Bretton Woods (RBW) section. <www.coc.org/rbw>

Focus on the Global South: An Asian NGO combining policy research, advocacy, activism and grassroots capacity building in order to generate critical analysis and encourage debates on national and international policies related to corporate-led globalisation, neo-liberalism and militarisation. <www.focusweb.org>

Kicking Away The Ladder: A now-classic book by Ha-Joon Chang that explains how

industrialised nations are preventing developing countries from adopting the same protectionist trade policies that they themselves used to become rich. Published by Anthem Press, 2003.

The Luckiest Nut in the World: A short film by Emily James that follows an animated American peanut who sings about the difficulties of trade liberalisation in developing countries. <www.mediathatmattersfest.org/films/the_luckiest_nut_in_the_world>

Our World Is Not for Sale: A network of organizations, activists and social movements worldwide fighting the current model of corporate globalization embodied in the global trading system. <www.ourworldisnotforsale.org>

Signing Away the Future: An Oxfam paper from March 2007 that explains how the new free trade agreements being signed up between rich and poor countries are proving far more damaging to the poor than anything envisaged within WTO talks. <www.oxfam.org/en/policy>

Trade Justice Movement: A coalition of organisations based mainly in the UK that together call for trade justice – not free trade – with the rules weighted to benefit poor people and the environment. <www.tradejusticemovement.org.uk>

Whose Trade Organisation – A Comprehensive Guide to the WTO: An expose by Lori Wallach and Patrick Woodall that reveals which WTO terms have led to U.S. job losses, the race to the bottom in wages, unsafe food, attacks on environmental and health laws, and burgeoning international inequality. Published by The New Press, New York, 2004, Distributed by Norton.

Notes

1. Note: Import tariffs are the primary but not the only way in which countries either liberalise trade or protect their economies. Non-tariff barriers to trade can include import and export licenses, quotas, subsidies, embargoes and other forms of regulation that serve to raise the price of traded products. A strict definition of free trade would mean the complete elimination of tariffs and other barriers to trade.
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6. Figures drawn from World Bank, World Development Indicators, Washington D. C., 2005, table 4.13. See Jens Martens, The Precarious State of Public Finance, op cit, p. 21.
7. World Bank Group, World Development Indicators 2011, Washington: 2011, see table 4.14 on p. 248.
8. African Economic Outlook 2010, op cit, p. 93.
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10. T. Baunsgaard and M. Keen, Tax Revenue and (or?) Trade Liberalisation, IMF Working Paper WP/05/112, June 2005.
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12. Note that this figure relates to NAMA (Non-Agricultural Market Access), the industrial goods agreement being negotiated in the WTO Doha Round. See: Kevin P. Gallagher, Putting Development back in the Doha Round, Yale Journal, Spring/Summer 2007, p. 117.
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14. Note: The study estimated financial gains for sub-Saharan countries to \$782.2m and revenue losses as \$3385.2m. Net gains are therefore calculated as \$2603m. See: South Centre, Economic Partnership Agreements in Africa: A Benefit-Cost Analysis, Analytical Note SC/TDP/AN/EPA/29, November 2011, p.12.
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18. See reference 12 and 13.
19. See reference 14.
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List of boxes, figures and tables

Box 1:	What is the sharing economy?	7
Box 2:	The small cost of saving lives	8
Box 3:	The evolution of the sharing economy	17
Box 4:	A small price to pay	20
Box 5:	Why don't governments support the sharing economy?	22
Box 6:	Poverty among the 'richest' countries	29
Box 7:	Poverty and deprivation in the developing world	30
Box 8:	The social impacts of financial austerity	32
Box 9:	The dangers of financial speculation	45
Box 10:	Why we should stop subsidising biofuels	60
Box 11:	War is big business	72
Box 12:	Tax avoidance around the world	84
Box 13:	What's wrong with international aid?	96
Box 14:	New era for agriculture?	110
Box 15:	International Monetary Failure	123
Box 16:	Taxing international air travel	135
Box 17:	False solutions to climate change	137
Box 18:	Austerity and the global debt crisis	150
Box 19:	Rejecting the free trade dogma	164
<hr/>		
Figure 1:	Global foreign exchange market turnover, daily average 1989-2010	43
Figure 2:	Positions in the global over-the-counter (OTC) derivatives market 2000-2011	44
Figure 3:	Key figures in the energy subsidy debate	55
Figure 4:	The problem with fossil fuel subsidies	59
Figure 5:	Countries with the highest military expenditure in 2011	69
Figure 6:	The number of jobs created for each \$1 billion spent by the US government	70
Figure 7:	Average global corporate tax rates 2000-2011	81
Figure 8:	Healthcare spending compared to tax evasion by world region	82
Figure 9:	Accumulative difference between official ODA commitments and ODA provided 1960-2011; and ODA as a percentage of GNI	93
Figure 10:	The flow of money between rich and poor countries	94
Figure 11:	Producer support as a percentage of gross farm receipts	105
Figure 12:	Gold price yearly averages 1970-2011	120
Figure 13:	Key events in the IMF's history	126
Figure 14:	CO ₂ emissions from international marine and aviation bunkers	133
Figure 15:	CO ₂ emissions from consumption of energy 1980-2010	136
Figure 16:	Key figures in the debt justice debate	149
Figure 17:	Trade taxes in Africa as a share of GDP	159
<hr/>		
Table 1:	How much money could governments mobilise?	39
Table 2:	How much revenue are governments losing?	83
Table 3:	Capital flight from developing countries: the top 10 losers	84
Table 4:	How generous are we?	95
Table 5:	The concentration of agricultural subsidies in the US 1995-2011	106
Table 6:	SDR allocations 1970-2011	119
Table 7:	Share of debt in developing countries from export credits	145
Table 8:	Debts which can be attributed to dictators	147
Table 9:	Decline in customs revenues as a percentage of government revenues 1995-2009	160

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Share The World's Resources (STWR) campaigns to strengthen and scale up the sharing economy in all its forms. We advocate for an international program of emergency relief to prevent life-threatening deprivation and end poverty-related deaths as a foremost global priority. We also call for extensive reforms to the world economy to ensure a fairer sharing of wealth, power and resources within and between nations.

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