**From Crisis to Green New Deal?**

Report of the expert meeting, convened by Both ENDS, in The Hague, 25 March 2009

*By Ellen Lammers*

## INTRODUCTION

Wiert Wiertsema, Senior Policy Advisor at Both ENDS and coordinator of its capital flows programme, welcomes all participants and in particular the guests from Uganda and India, Professor Dani Wadada Nabudere[1], Director of the Marcus Garvey Pan-Afrikan Institute in Mbale, and Kavaljit Singh, Director of Public Interest Research Centre in New Delhi. [2]

The expert meeting was purposefully scheduled a week before the G20 summit in London, where leaders of the world's largest economies will meet to discuss the financial crisis. The Netherlands, though not a G20 state, is invited to attend the summit.
Both ENDS will use the expert meeting to explore the possibilities of a Green New Deal that will address not only the financial crisis, but also the many other crises – climate, food, energy and water - affecting people worldwide. It is Both ENDS' conviction that all these crises are mutually connected and that sustainable solutions can only be achieved by treating them as such. The agenda of the G20 summit, however, does not reflect this awareness.

During this expert meeting, particular attention will be given to the impact of the financial crisis on countries and communities in the South. The two guests are invited to give a brief introduction about their views on this.

Some key points from the introduction by **Professor Nabudere:**

- Many African leaders did not expect the financial crisis to affect Africa as much as it does. The situation clearly proves that Africa is part of the global financial system.
- Among the most notable impacts are:
    - Remittances from diaspora Africans have declined sharply
    - Market prices for export products such as coffee and cotton dropped
    - Increasing protectionism in developed countries
    - Immediate reduction in Foreign Direct Investment (FDI)
    - Reduction in budget support from donors (which will affect progress on the MDGs)
    - Tourism declined
- African leaders have a stake in the crisis: many of them have externalised resources, that is, they have banked aid money outside for speculation purposes.
- Small farmers are quickly devising strategies to minimize the impact of the reduced prices for their agricultural products. They increasingly sell in local and regional markets and have started discussing the importance of growing indigenous crops for food security rather than exotic crops for export.
- The current crisis goes to the core of capitalism as a system; capitalism cannot continue in the same way that it has operated for the past 300 years.
- The crisis will show us new ways forward. Civil movements (e.g. peasant and labour movement) are re-emerging and will set a new agenda for national and international debate.

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[1] Author of *The Crash of International Finance Capital and its Implications for the Third World*, 2009, Fahamu Books.
[2] Author of *Taming global financial flows: Challenges and Alternatives in the Era of Globalization: A Citizen's Guide*, 2001, Zed Books.

Some key points from the introduction by **Kavaljit Singh:**

- The global financial crisis is fundamentally a crisis of capitalism.
- In India, the financial crisis is one of many crises that people suffer from – and often have done for decades, e.g. water, food and health crises. Environmental concerns and the threats to survival are urgent concerns to many people. However, these concerns are largely ignored by banks and politicians that rather focus on the financial/economic crisis.
- The financial crisis has a negative impact on green issues in India:
    - Sharp decline in bank lending for green investment projects, e.g. wind energy
    - Sharp decline in state funding for environmental issues (budget cut by 15%)
    - Big corporations demand that environmental regulations are relaxed (as well as health & safety and labour regulations)
    - Carbon trading market is not functioning
- In response to the financial crisis, the current leadership will merely tinker with the existing system (e.g. adjust some regulations for bonuses or hedge funds), but we should not accept such small measures.
- The *process* of formulating a New Deal or new global financial systems is crucial:
    - It should be a bottom-up process; the have-nots should be leading the design, incorporating environmental and other genuine concerns, resulting in a New Deal that carries many colours of the rainbow.
    - It has to be a political process, with political leverage and a long-term political vision, taking on board lessons from the past.
    - There is no need to start from scratch: many groups are already working on these issues. In India, alternative development strategies have been put forward for years, but the elite has systematically ignored these. The current crisis presents new opportunities to move these alternatives forward.

**THE TWO INTRODUCTORY PRESENTATIONS WERE FOLLOWED BY A ROUND OF COMMENTS AND INTERVENTIONS FROM THE PARTICIPANTS ADDRESSING A RANGE OF ISSUES:**

## 1) What is wrong with the current global financial system?

- Short-termism
- Poor governance and regulation
- No transparency
- Lack of leadership
- Mega institutions make mega mistakes
- Compensation and incentive schemes
- Money is no longer the servant but the master; no longer the means but the goal

## 2) The threat of protectionism

Protectionism in international trade is high on the G20 agenda. The WTO is supposed to ensure that countries don't compete with each other unfairly. Which are the loopholes in WTO rules that countries will start using to protect and support their own industries? One possibility is that countries will lower their environmental and social standards. Another is the increased tying of development aid (ODA is not regulated by WTO rules). Should, in these times of crisis, tied aid be allowed and if so, under what circumstances? Should it for instance be allowed under the condition that environmental and social costs will be incorporated?

### 3) Window of opportunity?

There was some disagreement on the opportunities for change. Some participants consider the current crisis a unique opportunity to severely question current capitalist and financial systems. They believe that the multitude of crises that present themselves simultaneously will have to be seized as an opportunity for innovative and profound change. Other participants doubt that the world is truly up for change. Are the food and livelihood crises, which have been evident for so long, really related to the financial crisis? And even if they are, what makes us think that today there is suddenly a window of opportunity to tackle them all - once and for all? Perhaps it is more likely that this crisis will be used to concentrate more power in the hands of the powerful.

## MORE IN-DEPTH DISCUSSIONS FOLLOWED ON THREE CLUSTERS OF ISSUES:

- **Governance of the global financial system**
- **Options to counter negative impacts of the crisis**
- **Options to promote positive steps forward**

### 1) What needs to be done to improve and democratize the current systems and institutions for global financial governance?

- **Change the allocation of board seats at the IMF and World Bank:** The governance structures of global financial institutions need to reflect democratic principles. The EU as a monetary unit should speak with one voice and therefore take up only one seat (instead of the current seven) in the governing board of the IMF and World Bank. EU member states, including the Netherlands, should give up their separate seats and these vacated seats should be made available to developing countries, in particular in Africa.

- **Devise a new global monetary system:** The US dollar should be replaced by a new global currency based on a basket of other national and regional currencies. It is suggested that the SDR may serve this purpose.

- **Set up regional monetary funds:** Many people from developing countries perceive current global (financial) institutions as dominated by powers and ideologies originating from the North. Some participants were concerned that the core ideology of neoliberalism will not change by trying to democratize the existing institutions. They argue in favour of setting up regional monetary bodies, such as an Asian Monetary Fund or an African Monetary Fund. This will better reflect today's reality (as opposed to the Bretton Woods system that reflects the reality of the 1940s) and will give people in Asia and Africa much more ownership over decisions taken in the global financial arena. Introducing regional currencies can be part of this change.

- **Start implementing the UN Convention against Corruption (UNCAC) and the OECD Anti-Bribery Convention** and other instruments that exist but are not sufficiently being used.

### 2) How can we stop negative fall-out of the crisis in a creative way?

- **Start operationalizing policy coherence**:
  - Ensure that none of the measures taken to solve the financial crisis have a negative impact on any of the other crises

    - Make a cost benefit analysis of each intervention, with detailed figures (e.g. what are the costs of bailing out the car industry (including environmental costs) and what are the benefits (employment)).

- **Socialise future profits**: Governments around the world appear to have no other choice than to bail out financial institutions and other companies on an unprecedented scale. To many people this translates as a 'socialization' of massive losses caused by irresponsible risks taken by private sector institutions. The current bail-out should therefore be matched with guarantees for a similar 'socialization' of these same institutions' future profits. This way, people will at least share in the long-term benefits gained from the sacrifices they make for today's bail-out schemes.

- **Avoid 'loophole' protectionism**: The G20 must stand by their commitment to *not* lower environmental and social standards for purposes of competition.

- **Pick your battles**: The billions of dollars spent on rescuing the financial sector cannot be retrieved. What can still be fought are patently wrong decisions such as huge financial support to rescue the car industry. And what can be demanded is a commitment from governments that part of the money that will flow back will be used for green investments.

- **Reform the risk management systems that banks are using** and introduce sustainability standards in these systems.

- **Demand that aid money for developing countries banked in western banks is impounded** and returned to the country to actually be used for true development purposes.

**3) What positive steps can we take?**

- **Encourage a conceptual move away from profitability towards sustainability as the highest goal**: Measure and calculate returns on investments (ROI) in terms of productivity instead of profitability.

- **Introduce new measurements that reflect the real costs of sustainability**:
    - Integrate the costs of environmental degradation, loss of biodiversity and toxic waste into the mainstream economic pricing systems
    - The same goes for social standards: these must be firmly included in the financial and economic systems as indispensible investments for the future sustainability of our societies
    - Create a new sustainability index to replace the watery criteria that are used today
    - Create an effective system for the auctioning and/or trading of emission rights

- **Choose for green:**
    - Currently US$ 300 billion is spent on direct subsidies for fossil fuels. This money should rather go to renewable energy.
    - Guarantee a minimum price for gasoline at the pump; this will trigger investments in green fuels
    - Invest in green technology
    - Transform our high energy societies into energy-efficient economies, by insulating houses, and better still: by making every household become its own power station

- **Let the re-emerging labour movement exert its influence** in areas where it has real leverage, e.g. with pension funds.

- **Let governments guide how nationalized banks invest their money**: Governments are tied to international obligations and Conventions that they ratified. Now that some banks have become state-owned, investments must be in conformity with such conventions (e.g. no investments in companies that produce cluster bombs)

- **Start public banks**: Now that governments are bailing out banks and buying up their toxic assets, why not go one step further and start public banks that will lend money to small companies and farmers in developing countries for whom there is now no capital available?

- **Invest wisely in development**:
    - All investments should be explicitly pro-poor and pro-equality
    - Investments in education for girls should be top-priority
    - Enforce the Paris Declaration on Aid Effectiveness so that aid money can be better used for local priorities
    - Invest in renewable energy projects in developing countries

- **Prevent a new debt crisis**:
    - Increase the number of soft loans to developing countries
    - Stop collecting debt service during the crisis
    - Introduce sustainability criteria for loans and grants

- **Support innovative and bottom-up approaches and initiatives**: For solutions to the current crises to be truly sustainable, solutions already being developed by communities and individuals on the ground in developing countries – also referred to as ***'glocal'*** solutions - need to be taken on board. The G20 governments are urged to incorporate visions and policy recommendations from developing country governments and civil society.

## LIST OF PARTICIPANTS

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