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World economy to pick up but faces risks – UN

The global economy is expected to expand at a faster but still moderate pace over the next two years, the United Nations has forecast. This outlook, presented in the UN's *World Economic Situation and Prospects 2015* report, is nevertheless subject to several risks, including uncertainties over economic recovery in the eurozone, the unfolding of US monetary policy and vulnerabilities faced by emerging economies.

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Global economy to improve slightly, but risks abound

The UN has projected higher but still moderate growth for the world economy this year, cautioning, however, that this outlook is subject to several downside risks.

by Kanaga Raja

GENEVA: The global economy is expected to expand at a slightly faster but still only moderate pace over the next two years, with world gross product (WGP) projected to grow by 3.1% and 3.3% in 2015 and 2016 respectively, a United Nations report has said.

In its *World Economic Situation and Prospects 2015 (WESP)* report released on 19 January, the UN said that this compares with an estimated moderate pace of growth of 2.6% in 2014.

The report cautioned that its global economic outlook is subject to a number of risks and uncertainties, including the fragility of economic recovery in the euro area, the forthcoming further normalization of the US Federal Reserve's monetary policy, domestic and external vulnerabilities faced by emerging economies, and current geopolitical tensions, in particular the crises in Iraq, Libya, Syria and Ukraine.

According to the UN, in preparing its global outlook, it had received inputs from the national centres of Project LINK and from the participants at the annual LINK meeting held in New York from 22 to 24 October 2014.

[The report appears to have been prepared before the latest news of the economic situation and outlook for the eurozone, falling consumer prices in the euro area, the European Central Bank (ECB) hesitating on its Outright Monetary Transactions facility in the face of German opposition despite the EU court clearing the way for supporting the euro by buying bonds, the Greek elections and prospects of a new government under Syriza, the Swiss National Bank abandoning its Swiss franc/euro peg, throwing currency markets into turmoil and possible deflation in Switzerland, falling oil prices hitting most producers, and financial markets with proliferating speculative trading in derivatives etc. – *SUNS*]

According to the report, six years after the global financial crisis, gross domestic product (GDP) growth for a majority of the world economies has shifted to a noticeably lower path compared to pre-crisis levels.

Excluding the three years from 2008-10 which featured, respectively, the eruption of the financial crisis, the Great Recession and the policy-driven rebound, four-fifths of the world economies have seen lower average growth in 2011-14 than in 2004-07.

At issue is whether such a shift to a lower path of growth in most countries will become entrenched for a long period. According to some pessimistic views, major developed economies are highly likely to be entrapped in secular stagnation, while policymakers in China have indeed taken growth of 7.0-7.5% as the new normal for the Chinese economy, compared with the average growth of 10% that China achieved in the previous three decades.

The report said that a salient feature for major developed countries during 2014 has been the erratic movements in their quarterly GDP growth rates. For example, the United States economy oscillated from a decline of 2.1% in the first quarter of 2014 to an increase of 4.6% in the second quarter, while at the same time the economy of Japan swung from growth of 6.7% to a contraction by 7.3%.

In the baseline outlook, the UN said that a further improvement is expected for developed countries, with growth projected to be 2.1% and 2.3% for 2015 and 2016 respectively, compared with the 1.6% estimated for 2014. However, downside risks remain significant, especially in the euro area and Japan, which have seen renewed weakness in 2014.

Growth rates in developing countries and economies in transition have become more divergent during 2014, as a sharp deceleration occurred in a number of large emerging economies, particularly in Latin America and the Commonwealth of Independent States (CIS). According to the report, a number of these economies have encountered various country-specific challenges, including structural imbalances, infrastructural bottlenecks, increased financial risks and ineffective macroeconomic manage-

ment, as well as geopolitical and political tensions. In contrast, East Asia, including China, managed to register relatively robust growth, while India led South Asia to a moderate strengthening.

In the baseline outlook, developing countries as a group are expected to grow at 4.8% and 5.1% in 2015 and 2016 respectively, up from the 4.3% estimated for 2014. Growth in the least developed countries (LDCs) is expected to continue exceeding the global average, at 5.7% in 2015 and 5.9% in 2016. The economies in transition as a group are expected to grow at 1.1% and 2.1% in 2015 and 2016 respectively, up from the 0.8% estimated for 2014.

The report cautioned that as in the case of developed economies, the risks to this baseline outlook are mainly on the downside. Many developing countries and economies in transition appear vulnerable to a tightening of global financial conditions and to the risk of a sharper-than-expected slowdown in major emerging economies, as well as a further aggravation of geopolitical tensions and an escalation of the Ebola epidemic.

Regional outlooks

Among the developed economies, the economy of the United States, after some erratic fluctuation in 2014, is expected to improve in 2015 and 2016, with GDP projected to expand by 2.8% and 3.1% respectively, compared with an estimate of 2.3% for 2014.

"While an increase in business investment will be the major driver, household consumption is also expected to strengthen, along with continued improvement in employment. The fiscal drag on growth is expected to remain, but with much milder intensity than in previous years. The policy interest rates are set to rise gradually after mid-2015, but the monetary policy stance will continue to be accommodative."

According to the UN, the risks for the economy are mainly associated with the possibility of sizeable volatility in financial markets in response to the normalization of monetary policy, leading to adverse effects on the real economy.

Western Europe continues to struggle, the report said, pointing out that in the EU-15, GDP growth is estimated to be only 1.2% in 2014, with a slight pickup to 1.5% and 1.9% in 2015 and 2016 respectively.

"The region is held back by the travails of the euro area, where the level of GDP has yet to regain its pre-recession peak. Unemployment remains extremely high in many countries in the region and headline inflation is at alarmingly low levels."

There is a ray of hope in that some of the crisis countries have resumed growth. Spain resumed positive growth in mid-2013 and has been strengthening since; Ireland and Portugal have also returned to positive growth, but all three recoveries remain extremely fragile. The only example of more robust growth is outside the euro area in the United Kingdom.

Among the developing countries, said the report, Africa's overall growth momentum is set to continue, with GDP growth expected to accelerate from 3.5% in 2014 to 4.6% in 2015 and 4.9% in 2016. Growth in private consumption and investment are expected to remain the key drivers of GDP growth across all five sub-regions and all economic groupings.

"A number of internal and external risks remain, such as a continued slow recovery in the developed countries, a slowdown in China, tighter global financial conditions, the Ebola outbreak, political instability, terrorism and weather-related shocks."

East Asia remains the world's fastest-growing region, with GDP growth estimated at 6.1% in 2014. In the outlook period, the region is projected to see stable growth of 6.1% in 2015 and 6.0% in 2016, said the report. China's transition to more moderate growth is expected to be partly offset by higher growth in other economies, where investment and exports will likely strengthen as activity in developed countries improves.

The key downside risks for East Asia are related to the upcoming tightening of global liquidity conditions, which could result in weaker growth of domestic consumption and investment, and to a sharper-than-expected slowdown of the Chinese economy.

Economic growth in South Asia is set to gradually pick up from an estimated 4.9% in 2014 to 5.4% in 2015 and 5.7% in 2016. While the recovery will be led by India, which accounts for about 70% of regional output, other economies such as Bangladesh and Iran are also projected to see stronger growth in the forecast period.

There are, however, significant downside risks for the region due to the continuing fragility of the global economy and considerable country-specific weaknesses, including political instability and the agricultural dependency on the monsoon.

Economic growth in Latin America and the Caribbean is projected to moderately improve from a meagre 1.3% in 2014 to 2.4% in 2015 and 3.1% in 2016, albeit to varying degrees across countries and with significant risks to the downside. Investment demand is estimated to recover from the current sharp slowdown, as large public investment projects are expected to be implemented in countries such as Brazil, Chile and Mexico. Accommodative monetary policy is also expected to support economic activity in some countries.

The downside risks are related to a larger-than-expected growth decline in China, further reductions in commodity prices and the potential financial spillovers from the normalization of the monetary policy stance in the United States.

The employment challenge

The report underlined that the global employment situation remains a key policy challenge, as GDP growth continued to be modest and below potential in many parts of the world. Globally, employment is estimated to have grown by 1.4% in 2014, similar to the pace in 2013 but still lower than the 1.7% rate in pre-crisis years. As a result, unemployment figures remain historically high in some regions, even though they appear to have stopped rising.

The overall labour market situation is, however, more complex and challenging if a wider range of indicators are taken into consideration, such as labour force participation, long-term unemployment, wage levels, involuntary part-time work and informality.

[Meanwhile, the International Labour Organization (ILO) has warned that the global employment outlook will deteriorate in the coming five years. In its *World Employment and Social Outlook – Trends 2015* report, released on 20 January, the ILO said that by 2019, more than 212 million people will be out of work.

[Global unemployment stood at over 201 million in 2014, over 31 million more than before the start of the global crisis, and is expected to increase by 3 million in 2015 and a further 8 million in the following four years.

[According to the ILO, the global employment gap, which measures the

number of jobs lost since the start of the crisis, currently stands at 61 million. If new labour market entrants over the next five years are taken into account, an additional 280 million jobs need to be created by 2019 to close the global employment gap caused by the crisis, it said.]

According to the *WESP* report, in developed economies, the job recovery has been insufficient to recuperate the losses from the financial crisis. The employment rate (employment-to-population ratio) declined significantly after the financial crisis in developed economies and remains below the pre-crisis level, with the exception of Japan.

The overall decline in employment rates since the beginning of the financial crisis is explained by weak labour demand, but also by structural factors and lower labour force participation, said the report. A case in point is the United States, where the labour force participation rate is near its lowest level in the past 10 years due to an ageing population, an increase in skills upgrading and a higher number of discouraged workers.

Employment has been improving slowly in developed economies, although significant challenges remain. While the unemployment rate in the United States has decreased to below 6%, the unemployment rate in the euro area remains elevated, with several economies in the euro area featuring extremely high unemployment. In addition, youth unemployment rates remain high in several European countries, at 53% in Spain, 44% in Italy and 35% in Portugal, for example.

In developing countries and economies in transition, the employment situation has not improved considerably either, with economic expansion decelerating in many economies.

However, said the report, there have been noticeable improvements in some countries since the beginning of the financial crisis, including in some larger emerging economies. For example, Argentina, Brazil, Indonesia, Russia, Saudi Arabia and Turkey have recorded higher employment rates in 2014 than in 2007.

Slow and uneven recovery in major developed countries and moderated growth in developing countries have led to sluggish trade growth in the past few years. World trade is estimated to have expanded by 3.4% in 2014, still well below pre-crisis trends.

In the forecast period, said the report, trade growth is expected to pick up moderately along with improvement in global output, rising to 4.5% in 2015 and 4.9% in 2016.

Developed countries are expected to see some improvement in trade growth, with export growth rising from 3.5% in 2014 to 4.4% in 2015. Import growth will also progress at a similar rate. Further improvement is expected in 2016, said the *WESP* report.

Growth of exports in developing countries is expected to increase from 3.9% in 2014 to 4.6% in 2015 and 5.5% in 2016, while growth of imports will expand even more rapidly from 3.8% in 2014 to 5.3% in 2015 and 6.0% in 2016.

Risks and uncertainties

The report highlighted three different scenarios with respect to the uncertainties associated with normalization of monetary policy by the US Federal Reserve.

It said that while the assumption for the baseline outlook is a smooth process of interest-rate normalization, any unexpected changes in GDP growth, employment creation, inflation or other circumstances can trigger a deviation from the assumed interest-rate path. This, in turn, would lead to the sudden repricing of financial assets, higher volatility and possibly global spillovers.

In one scenario, higher inflation or financial bubble concerns would lead to a more rapid increase in the policy interest rate. Together with a rise in term premia, this would drive up credit spreads, accompanied by an increase in volatility and significant repercussions for global financial markets.

By contrast, in another scenario, a renewed slowdown in growth would prompt a delay in interest-rate hikes. This would set off higher volatility and possibly lead to additional financial instability risks in the light of asset pricing that is based for an even longer time on abundant liquidity rather than on economic fundamentals.

The report cautioned that any deviation from the policy interest-rate path expected by financial markets could have major ramifications in financial markets.

One reason for this is the decrease in market liquidity for corporate bonds due to a retrenchment of market-making banks. As a result, any sell-off in bond markets caused by an upward revision of interest-rate expectations would lead to a more pronounced fall in bond prices, higher yields and higher borrowing costs.

A further reason lies in the increased role of financial actors that feature a higher redemption risk, such as mutual funds and exchange-traded funds. These actors, together with households, have seen a continuous increase in their share as holders of corporate bonds, while the share of insurance and pension funds has decreased.

"A faster-than-expected normalization of interest rates in the United States can also create significant international spillover effects, especially a drying up of liquidity in emerging economies and an increase in bond yields," said the *WESP* report.

Many emerging economies also remain vulnerable to the fallout from rising global interest rates. While certain economic fundamentals such as currency reserve ratios are overall in better condition than in the past, various factors have increased emerging markets' vulnerability, particularly to higher global interest rates. These include, for example, rising levels of foreign-currency-denominated debt, particularly short-term debt in a number of cases.

Turning to the euro area, the report said that the sovereign debt crisis has subsided dramatically since the ECB announced its Outright Monetary Transactions facility in August 2012. "It has yet to be activated, but its mere existence has broken the negative feedback loop between weak banks and weak government fiscal positions. Sovereign-bond spreads have narrowed significantly and some of the crisis countries have seen an improvement in their debt ratings."

However, while the sense of crisis has dissipated, significant risks remain, the report warned, noting that the banking sector remains under stress. Lending conditions remain fragmented across the region, with firms in periphery countries, particularly small and medium-sized enterprises, starved of credit.

The most significant risk, however, is the precarious nature of the euro area recovery. The underlying growth momentum in the region has decelerated to the point where an exogenous event could lead to a return to recession. The current tensions in Ukraine and resulting sanctions have already had a serious negative impact on activity and confidence.

The weak state of the recovery is characterized by continued low levels of private investment, extremely high unemployment in many countries – which becomes more entrenched as the ranks of the long-term unemployed increase – and dangerously low inflation, which could turn to Japan-style deflation.

"Aside from being exceptionally difficult to exit, deflation would also increase real government debt burdens and perhaps reignite the debt crisis as fiscal targets become increasingly difficult to achieve."

Vulnerable emerging economies

The report underlined that many large emerging economies continue to face a challenging macroeconomic environment, as weaknesses in their domestic economies interact with external financial vulnerabilities.

Although the baseline forecast projects a moderate growth recovery in 2015 and 2016 for almost all emerging economies – including Brazil, India, Indonesia, Mexico, Russia, South Africa and Turkey – and only a slight moderation in China, there are significant risks of a further slowdown or a prolonged period of weak growth.

"A broad-based downturn in emerging economies, particularly a sharp slowdown in China, would not only weigh on growth in smaller developing countries and economies in transition, but could also derail the fragile recovery in developed countries, particularly in the struggling euro area."

At present, said the report, the main risk for many emerging economies arises from the potential for negative feedback loops between weak activity in the real sector, reversals of capital inflows and a tightening of domestic financial conditions amid an expected rise in the interest rates in the United States.

Given the expected normalization of monetary policy in the United States, it is likely that emerging markets will see a tightening of financial conditions in the forecast period. In the absence of a new reform push, this may further weaken real investment growth, particularly in the private sector. "A key question in this regard is the degree to which the upcoming increase in United States interest rates will affect borrowing costs in emerging economies," said the *WESP* report.

It also pointed to geopolitical tensions as being another major downside risk for the economic outlook. In addition to the severe human toll, the crises in Iraq, Libya, Syria and Ukraine have already had pronounced economic impacts at the national and sub-regional levels, although the global economic effect has so far been relatively limited.

A major reason for the limited global impact thus far is that global oil markets remained on an even footing, with any actual or feared conflict-related decline in oil supplies being offset by oil production increases, notably in the United States.

Nevertheless, the world economy remains at risk to experience a more pronounced slowdown that could be caused by sub-regional economic weakness due to conflict and sanctions feeding into a broader global impact.

"A further risk lies in a drastic fall in oil output and exports by any of the major oil-exporting countries, which may set off a sharp adjustment in financial markets' risk perception, leading to higher risk premia and an increase in market volatility across different asset classes," said the report.

It further underlined that the Brent oil price is projected to decline in 2015-16 from the average price in 2014, as the gap between demand growth and supply growth is expected to continue. In 2015, the average crude oil price is expected to decline by about 10% to $92 per barrel from $102 per barrel in 2014.

This forecast is based on the assumption that OPEC countries will not cut production to support oil prices and that global oil demand growth will continue to be weak. In 2016, the Brent oil price is expected to recover moderately to $96 per barrel, provided that global demand growth accelerates gradually while oil output remains stable.

Nevertheless, said the report, there are important risks to this forecast. On the downside, growth in oil demand could be weaker, particularly from China, Japan and Western Europe, which would drive prices lower than forecast. On the upside, if OPEC members decide to cut oil production, oil prices could rebound faster than anticipated.

At the same time, it added, if the conflict in Iraq escalates, supply disruptions could be a major concern, which would lift the Brent price above the projected price. In addition, current reciprocal sanctions between Russia and leading OECD countries are raising more concerns about possible consequences for Russia's oil production and exports. *(SUNS7944)* ❐

Falling oil prices threaten fragile African economies

The oil price drop has exposed the shaky foundations of African economies.

by Thalif Deen

UNITED NATIONS: The sharp decline in world petroleum prices – hailed as a bonanza to millions of motorists in the United States – is threatening to undermine the fragile economies of several African countries dependent on oil for their sustained growth.

The most vulnerable in the world's poorest continent include Nigeria, Angola, Equatorial Guinea, Gabon and Sudan – as well as developing nations such as Algeria, Libya and Egypt in North Africa.

Kwame Akonor, associate professor of political science at Seton Hall University in New Jersey, who has written extensively on the politics and economics of the continent, told Inter Press Service (IPS) recent trends and developments such as the outbreak of Ebola and the fall of global oil prices "show how tepid and volatile African economies are."

In 2012, for instance, Sierra Leone and Liberia (two of the hardest-hit countries with Ebola) were cited by the World Bank as the fastest-growing sub-Saharan African countries, he pointed out.

In a similar vein, countries such as Algeria, Equatorial Guinea and Gabon are considered top-performing economies due to the large concentration of their oil and gas reserves.

"But the ramifications of any economic crisis will undoubtedly negatively impact the fortunes of these countries," said Akonor, who is also director of the University's Centre for African Studies and the African Development Institute, a New York-based think-tank.

There are multiple reasons for the decline in oil prices, including an increase in oil production, specifically in the United States; a fall in the global demand for oil due to a slowdown of the world economy; and a positive fallout from conservation efforts. As the *New York Times* pointed out: "We simply don't burn as much energy as we did a few years ago to achieve the same amount of mileage, heat or manufacturing production."

There are also geopolitical reasons

for the continued decline in oil prices: Saudi Arabia, one of the world's largest producers, has refused to take any action to stop the fall. Despite the crisis, the Saudi oil minister Ali Al-Naimi was quoted as saying, "Why should I cut production?" This has led to the conspiracy theory that it is working in collusion with the United States to undermine the oil-dependent economies of three major adversaries: Russia, Iran and Venezuela.

Besides Saudi Arabia, the fall in prices is also affecting Iraq, Kuwait, United Arab Emirates (UAE), Qatar and Oman. But they are expected to overcome the crisis because of an estimated collective foreign exchange reserve amounting to over $1.5 trillion.

The drop in oil prices, however, will have the most damaging effects on Africa, which has been battling poverty, food shortages, HIV/AIDS and, more recently, the outbreak of Ebola.

The heaviest toll will be on Nigeria, the largest economy in Africa which depends on crude oil for about 80% of its revenues, according to the *Wall Street Journal*. The country's currency, the naira, has declined about 15% since the beginning of the fall in oil prices.

Shenggen Fan, director general of the International Food Policy Research Institute (IFPRI), sees both a positive and a negative side to the current oil crisis. He told IPS the recent decline in oil prices will help reduce food prices.

Since oil prices are highly correlated with food prices, high oil prices make agricultural production more expensive and thus cause food prices to increase, he added. "Now that oil prices are on a downward trend, this is, by and large, good for global food security and nutrition," he said.

Fan said poor producers and consumers in developing countries should be able to benefit from this – as long as their purchasing power increases.

However, he cautioned, oil-exporting countries may lose government revenues from low oil prices. Indeed, crude-oil-producing nations in Africa have felt the pinch of declining oil prices given the dependence of their economies on crude oil, he noted. In the short run, he said, poor people may suffer, if their governments reduce food subsidies.

"In the long run, governments in these oil-exporting countries should use oil revenues to support productive sectors, employment generation, and also build financial reserves when oil prices

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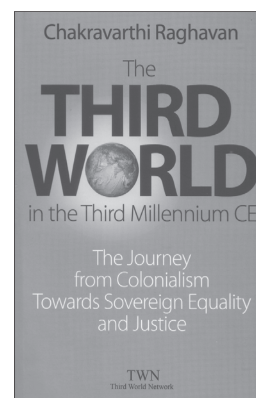
The Third World in the Third Millennium CE

The Journey from Colonialism Towards Sovereign Equality and Justice

By Chakravarthi Raghavan



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The development path traversed by the countries of the Third World since emerging from the colonial era has been anything but smooth. Their efforts to attain effective economic sovereignty alongside political independence, even till the present day, face myriad obstacles thrown up on the global economic scene. This drive to improve the conditions of the developing world's population has seen the countries of the South seek to forge cooperative links among themselves and engage with the North to restructure international relations on a more equitable basis – not always with success.

In this collection of contemporaneous articles written over a span of more than three decades, *Chakravarthi Raghavan* traces the course of dialogue, cooperation and confrontation on the global development front through the years. The respected journalist and longtime observer of international affairs brings his inimitable blend of reportage, critique and analysis to bear on such issues as South-South cooperation, corporate-led globalization, the international financial system, trade and the environment-development nexus. Together, these writings present a vivid picture of the Third World's struggle, in the face of a less-than-conducive external environment, for a development rooted in equity and justice.

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Political capture by the financial industry

The potent influence the financial industry exerts over the policymaking process is a major factor behind the insignificant progress in regulating the sector since the global financial crisis erupted in 2007. *Manolis Kalaitzake* examines the main sources of the industry's political power and possible ways to counter its disproportionate clout.

Since the 2007 outbreak of the financial crisis, the visible political dominance of the financial industry has become an issue of major concern for civil society. This essay unpacks the precise sources and diverse mechanisms of financial political power within the contemporary global economy. It illustrates this power over the policymaking process with specific reference to the case of the European Financial Transaction Tax, a policy which has been pursued by European authorities since 2009. This initiative is currently poised for defeat by the financial industry, however, because of extensive watering down of the original proposal. The failure of this policy initiative is not an isolated event but indicative of a broader trend of successive political victories for the industry since the crisis.

The essay proceeds first with a brief overview of the political protection of the financial industry since the global economic crash, specifically in the policymaking domain of financial regulation. Second, I provide a brief theoretical overview of the distinct sources of financial political power within the global economy: "instrumental" power involving conscious political mobilization and direct lobbying; "ideological" power involving a broadly neoliberal policy consensus among elite political groups; and "structural" power involving the threat of capital flight and disinvestment, exacerbated in the context of contemporary "financialization". Third, I illustrate the concrete manifestation of this power, highlighting the case of the European Financial Transaction Tax. I conclude by suggesting that efforts to overcome the economic dominance of the financial sector necessarily depend upon simultaneously curtailing the political influence of financial actors and markets over the policymaking process, and offer some brief suggestions for how this may be achieved.

The political protection of finance and regulatory failure

More than six years after the largest financial crash since the Great Depression, the global economy remains stagnant. Impeding recovery are extensive austerity programmes in developed nations and fiscal retrenchment designed to retain the confidence of, and ensure continued access to, international financial markets. With the burden of post-crisis adjustment falling squarely on the shoulders of states and ordinary citizens, the contrasting fortunes of the financial industry could hardly be starker.

Stubbornly high debt levels of governments and households continue to undermine domestic economic growth while offering ever-increasing monetary transfers to financial creditors. Most egregiously, financial institutions have benefited directly from large bailout and recapitalization programmes, with total guarantees for the G20 financial system accounting for roughly 11% of combined gross domestic product (GDP). Globally, the number of people living in extreme poverty has risen by 80 million as a direct result of the economic crash, while unemployment ballooned from 178 to 205 million people during 2007-09.[1]

By contrast, global financial markets have been momentarily disturbed by the crisis rather than fundamentally transformed. At the end of 2010 the value of global financial stock actually surpassed its 2007 peak before the onset of the crisis, reaching $212 trillion.[2] Banking profitability also returned with a vengeance, with major firms continuing to reap the benefit of implicit guarantees from national governments due to their size, complexity and systemic interconnectedness. Similarly, shadow banking (unregulated elements of the global financial system, e.g., hedge funds or private equity funds) has expanded from $62 trillion in 2007 to $67 trillion in 2011, with its share of total financial intermediation remaining relatively stable at 25%.[3]

Unconventional monetary policy by major central banks – such as the European Central Bank, the US Federal Reserve, the Bank of Japan and the Bank of England – has also been highly favourable to the financial industry post-crisis. Policy initiatives such as prolonged low interest rates, extensive liquidity provision and asset-purchase intervention all contributed to propping up asset prices, buttressing stock market earnings and providing cheap cash for speculation.[4] The distributional consequences have been clear as the profitability of major internationally active banks was boosted significantly throughout the 2008-10 period as a result of extensive monetary easing.[5]

Perhaps the most confounding development in the aftermath of the financial crash has been the failure of policymakers to follow through on commitments regarding financial regulation. Despite promises of a complete overhaul, reforms have been piecemeal, incremental and restricted.[6] This watering down of regulatory proposals has occurred at the global, regional and national levels. Globally, Basel III requirements – international agreements on prudent banking capital and liquidity standards – have been significantly weakened while the banking industry has been given until 2019 in order to prepare for the introduction of more stringent standards. In the case of shadow banking reform, the International Monetary Fund admits that "a firm consensus has yet to emerge on what, if any, regulatory action is needed", despite reform proposals put forward by the G20 in late 2008.[7] Other globally driven measures such as the regulation of over-the-counter derivatives (risky trades that are conducted without supervision) have been subject to continuous delays and fragmentation in implementation across different jurisdictions. Similarly, issues such as accounting convergence standards and the creation of a cross-border resolution regime for failing banks have proven too difficult for regulatory authorities to coordinate in any meaningful manner.[8]

Lacklustre developments have also occurred at the regional level, where the efforts of the European Union stand out as particularly underwhelming. Important money market reforms (that would protect short-term access to credit) have been abandoned while others have been watered down, such as hedge fund and private equity regulation, credit-rating

agency reforms, fund manager bonus caps and the Financial Transaction Tax initiative. Similarly, there has been widespread reluctance to tackle the persistent "too big to fail" issue whereby the future collapse of a large banking institution within an EU member state would threaten the entire economy and force officials to cover a bailout with taxpayer funds. As it currently stands, large EU banking firms have either consolidated or increased their domestic market position. It is little wonder, then, that in June 2013 the European Parliament overwhelmingly approved a resolution condemning the slow pace and uncertainty surrounding regulatory initiatives, while rebuking the European Council and European Commission (executive bodies of the EU) for their lack of commitment to the financial reform process.[9] Despite this, the most recent attempts at European regulatory reform have resulted in the failure to implement long-awaited structural banking reforms (so-called Liikanen reforms) which aim to separate risky trading from more traditional lending practices at big European banks.[10]

Several explanations have been advanced for the lack of strong political action against the financial industry in the post-crisis era. One explanation identifies the lack of institutional capacity for coordination and collaboration on effective regulatory policymaking at the global level. A similar institutional 'gridlock' is replicated within the EU architecture. A second, related explanation focuses on the role of diverse national interests among states in dealing with different sectors of the financial system. For instance, German, French and British reform preferences frequently diverge depending on the specificities of their internal economic structure and the prerogatives of their domestic financial actors. A third explanation maintains that the conservative and technocratic nature of regulatory bodies has led to the adoption of an overly cautious approach towards financial reform.

Each of these views is partly valid depending on the reform in question. However, particular attention must be paid to the exercise of financial political influence over the policymaking process. The political power of the financial industry has contributed significantly to weak regulatory outcomes and has been a major factor in the unequal burden-sharing of the post-financial-crisis era.

Three dimensions of financial political power

In order to clarify the precise sources and mechanisms of financial sector influence over the policymaking process, it is necessary to make an analytical distinction between three basic types of power: instrumental, ideological and structural. A combination of these dimensions allows the financial sector to secure formidable leverage over political outcomes.

Instrumental

Instrumental power refers to conscious and formal political activity by financial actors, their institutions and associations. Needless to say, the material resources at the disposal of business groups are vast and generally dwarf those available to opposing interests. At the EU supranational level, 75% of all active interest associations represent business in general.[11] Specifically in terms of finance, lobbyists outspend other interests at a ratio of 30 to 1, targeting a wide array of policymaking pressure points including: European Commission officials, European Council members (comprising heads of state), Members of the European Parliament (MEPs), the Committee on Economic Affairs, advisory groups in official regulatory agencies, etc. The financial industry reports official figures of €120 million per year on EU lobbying expenses – most likely an underestimate – employing more than 1,700 lobbyists across 700 organizations.[12] Similar dynamics are evident at the national level.[13]

While such spending power can oftentimes 'buy' privileged access to policymakers, it is by no means the only mechanism through which financial actors consciously mobilize to affect policy outcomes. Indeed, since the crisis, public representatives do not want to be portrayed as being 'in the pocket' of large financial interests and thus, the industry frequently relies on a more subtle form of political leverage. This involves using their technical knowhow and expertise to embed themselves within key policy networks in an effort to affect results directly. Given that financial sector regulation is highly complex and requires in-depth knowledge, it is particularly prone to the phenomena of elite 'revolving doors' and so-called "regulatory capture".[14]

Financial regulatory authorities in the EU, the International Monetary Fund and the Basel Committee on Banking Supervision, among others, value the technical skills that private sector actors possess and actively seek to incorporate this knowledge into their institutional functioning. On a consistent basis, private financial sector associations (such as the Institute of International Finance or the International Swaps and Derivatives Association) offer their services to key regulatory authorities on vital policy initiatives. Once access is secured, financial representatives work from the inside to water down threatening parts of particular proposals while conveying a public image of proactive participation in responsible global governance. Additionally, it is noteworthy that throughout their careers some key policymakers go back and forth between the public and private sectors, tacitly reproducing dominant norms of conservative financial sector regulation.

Ideological

Ideological power refers to the overarching neoliberal policy consensus that exists among senior elements of the corporate and political worlds (including elements of the mass media). Such policies closely align with the prerogatives of major financial institutions and investors who benefit immensely from the opening up of new market opportunities through privatization, an anti-inflationary fiscal policy and the implementation of austerity that shifts the burden of post-crisis adjustment upon the population. Although the crash of 2007-08 did much to delegitimize the liberalizing, monetarist and especially deregulatory agenda that characterizes neoliberal governance, it is clear that key policymakers remain broadly wedded to this policy paradigm. For some policymakers, neoliberal reforms are the only plausible response to the challenges of contemporary globalization, while for others they reflect true-believer preferences premised upon supposed efficiency gains derived from an open-market economic programme.

Policymakers in the EU largely embrace this approach. While small divisions persist over the precise handling of the European crisis, virtually all mainstream EU political parties and officials accept the inevitability of fiscal restraint and the necessity of implementing structural reforms (i.e., labour market flexibility) to increase competitiveness. In complementary fashion, the European Central Bank maintains hawkish control over monetary policy while the European Commission

tightens its budgetary surveillance of member states. Thus, influenced prominently by German policy prerogatives, the EU remains committed to free-market globalization, albeit tweaked by new forms of (macro-prudential) regulatory governance.

As is happening across other major economies, inflation rates remain historically low despite a loose monetary policy, while meaningful fiscal expansion is kept firmly off the agenda. Such ideological leanings are premised upon the financial industry acting as the driving force of the contemporary global economy, geared as they are towards financial market preferences: cheap credit, maintenance of asset values (e.g., property prices), state retrenchment, inflation targeting, etc.

However, none of this is to say that the neoliberal consensus goes entirely unchallenged – rather, it simply remains preeminent. Indeed, the crisis has opened up considerable opportunity for popular forces to advocate against these policies and push for reform initiatives that have the potential to rein in the political dominance of the financial sector.

Structural

Structural power refers to the persistent threat of capital flight and capital relocation that hangs over public representatives when making delicate choices about the conduct of economic policy. Simply put, if governments do not adhere to policies favourable to financial sector interests, they will be punished 'automatically' through capital disinvestment. As such, this dimension of power refers to the unconscious and impersonal influence of global financial markets determined by an aggregation of market-driven investor sentiment; there is no *intentional* pursuit of political influence on the part of financial actors. As one of the leading scholars of international political economy, Benjamin Cohen, puts it: "Few knowledgeable observers of the decentralized decision processes of the marketplace would argue that the pressures now exerted on governments are somehow designed with conscious political intent. An informal kind of veto over state behaviour has emerged. But it is a power that is exercised incidentally, through market processes, rather than directly in pursuit of a formal policy agenda."[15]

In the context of contemporary globalization, there are two specific features of the world economy that exacerbate the influence of financial structural power over the policymaking process. First, the progressive "financialization" of advanced market economies, and second, the stagnant recovery conditions of the post-crisis era.

The relatively recent phenomenon of financialization denotes the growing prominence of financial motives in all aspects of economic life. More specifically, financialization refers to several pronounced trends that characterize the functioning of advanced economies such as the EU, the US, Japan and, increasingly, a number of emerging nations. These processes involve: the rise of shareholder value (prioritizing short-term maximization of corporate profits over other stakeholders); a general shift from banking-led finance to capital-market-led finance (further integrating state, household and corporate borrowing with international capital flows); the increasing financial market participation of non-financial corporations (tightening the interests of productive firms with financial firms); and the explosion of speculative activity within the financial sector itself (promoting the creation of complex financial instruments that are difficult to regulate).

Many of the dominant accumulation, investment and consumption patterns within advanced economies have become fundamentally intertwined with these processes of financialization. Thus, any effort to limit the salient role of financial activity and credit flows runs a very real risk of undermining the growth and employment prospects of individual economies.

Relatedly, stagnant recovery conditions in the post-crisis era put additional pressure on leading policymakers to avoid a clampdown on financial sector activity. The logical fear is that aggressive action may worsen credit provision and thus impede the funding of productive firms – in particular, small and medium-sized enterprises that generate the bulk of internal domestic employment. Furthermore, the growth of a thriving and high-income-earning financial industry within most advanced economies means that policymakers are loathe to damage the competitiveness of this dynamic sector of their domestic economy (e.g., the US and UK's jealous protection of Wall Street and City of London interests). Hence, the prolonged weakness of post-crisis recovery buttresses the political position of financial actors, strengthening their claims that cautious and piecemeal regulation is a more prudent course of action and propagating the view that national states are "structurally dependent" on the vitality of a liberalized financial system.

Financial political power and the EU Financial Transaction Tax

The Financial Transaction Tax (FTT) policy was brought onto the political agenda by a range of high-profile figures such as former UK Prime Minister Gordon Brown, former French President Nicolas Sarkozy and former German Minister of Finance Peer Steinbrueck at the G20 Pittsburgh meeting in 2009. In the wake of the financial crisis, it was deemed appropriate that the financial sector should contribute towards the costs of the crisis. Given the high mobility of financial capital, the global level was seen as optimal for implementation. Nevertheless, Tim Geithner, then US Treasury Secretary, dismissed this idea out of hand, responding to the loud concerns of Wall Street firms at the possibility of a new global taxation charge.

Undeterred, the EU pushed ahead in the hope that it could design an FTT that would demonstrate the effectiveness of such a policy to the broader international community. However, the policy initially failed at the EU level as the new UK government led by the Conservative Party (and flanked by finance-dependent economies such as Luxembourg, Ireland, Cyprus, etc.) vetoed the idea in late 2011. Nevertheless, in 2012 a group of 11 member states including Germany, France, Italy and Spain (EU11) opted to go it alone under conditions of "enhanced cooperation" – a legal device allowing nine member states or more to pursue legislative policy without the approval of other members.

Persistence with the FTT policy by leading member states and other European authorities is a testament to the partial decline in ideological support for finance in the post-crisis era. The European Commission, despite its initial reluctance towards the idea, has been a particularly vigorous supporter. Such willingness to support an FTT policy emerged primarily from the Commissioners' role as 'political managers' who were forced to deal with a severe fiscal crisis affecting Europe. Such a predicament led them to re-evaluate their previous unwa-

vering commitment to financial sector interests. Furthermore, in their search for credibility in the eyes of the European population, they sought to demonstrate a willingness to combat the worst excesses of financial misbehaviour. As a part of this shift, the Commission has frequently attempted to insulate itself from the barrage of lobbying conducted by financial sector groups in the post-crisis era.[16]

The reputational damage to finance also allowed a wide range of civil society groups across the EU to maintain political pressure for the taxation initiative because it garnered huge public support: majorities in 24 out of 27 member states polled in favour of the proposal.[17] Popular support emboldened the Commission to take an aggressive stance with regard to the details of the FTT policy. Proposing a charge of 0.1% on shares and bonds and 0.01% on derivative transactions, the Commission estimated the FTT would yield €34 billion in annual revenue across the EU11.

More importantly, the charge was designed to incorporate the widest possible scope of financial activity in an attempt to prevent tax avoidance and capital relocation (termed the "AAA approach" encompassing all actors, all instruments and all markets). Furthermore, legal measures were incorporated to ensure that EU11 firms could not escape the charge simply by moving out of the EU11 jurisdiction.[18] Instead, what matters is 'who' is trading, rather than 'where'. Such anti-avoidance measures mean that the only way for financial firms to escape the charge would be to avoid commercial interaction with EU11 countries entirely; a highly unprofitable – and hence unlikely – global trading strategy.[19]

This carefully crafted FTT proposal was initially set to be implemented in January 2014, yet eventually faced postponement and extensive watering down. The explanation for this outcome lies in the complex interaction of instrumental and structural financial political power. Across the EU, a plethora of transnational financial sector trade associations began to mobilize vigorously against the charge. The dominant tactic was to push for various exemptions across different sub-sectors of the financial industry in order to narrow the scope of the tax.

Well-funded organizations such as the Association for Financial Markets in Europe and the Swaps and Derivatives Associations lobbied MEPs and European Council members relentlessly, citing highly technical industry assessments and highlighting the negative impact the charge would have upon the competitiveness of the EU financial sector, employment, lending flows and the vitality of the EU economy more broadly. Given the determination of the Commission to see the charge implemented, financial actors concentrated their lobbying attention towards specific heads of state represented within the Council.

The strategy thus involved widespread instrumental mobilization combined with the persuasion of several structural power arguments. Furthermore, the overlapping membership of financial firms across different trade associations allowed the industry to present a coherent and relatively unified front in their messaging to key policymakers. British financial trade associations even convinced the UK government to take a legal case to the European Court of Justice citing the illegality of the Commission's aggressive policy proposal. Although the case failed, the legal action exacerbated the sense of political fatigue with the proposal at the European Council due to the level of diplomatic friction created between participating and non-participating member states throughout discussions.[20]

Central banks were a major site of intensive tactical lobbying by financial sector trade bodies. In mid-2013 financial associations began a concerted effort to convince prominent bankers that the FTT charge would hurt central bank monetary policy transmission as well as the competitiveness of European financial markets. Prompted by a flood of public letters and appeals, senior central bankers across Europe immediately began to speak out publicly against the charge. These included Jens Weidman of the Bundesbank (Germany), Mervyn King of the Bank of England, Christian Noyer of the Banque de France, Luis Maria Linde of the Bank of Spain and, eventually, European Central Bank chief Mario Draghi who offered assistance to policymakers for crafting a better policy proposal.[21] Unlike the Commission, the European Central Bank has not tempered its support for the financial sector since the economic collapse – from its controversial advocacy of large financial sector bailouts by member states, to its refusal to accept private sector losses for bondholders, to its highly accommodating monetary policy.

Perhaps most importantly for the fate of the FTT, non-financial corporations also lobbied vigorously on behalf of the financial industry. Firms claimed that the FTT charge would hurt them in two ways. First, they claimed that the tax would increase their cost of raising funds on capital markets. Second, productive firms argued that their internal treasury operations (financial market transactions conducted during the normal course of business activity) would be hit significantly, raising their costs of operation. Such arguments bring up the important question of how 'financialized' large non-financial corporations have become in the contemporary world and put into question the distinction that is often made between the interests of 'real' and 'financial' sectors of the economy. By the end of 2013, all large productive firms across Europe – including influential trade associations such as the European Roundtable of Industrialists and the major employers' associations within Germany and France – had united against the charge, prompting further anxiety among European Council members regarding the policy's wisdom.

Due to a failure of all EU11 member states to agree at the Council level on the precise scope of the FTT, the policy missed its intended January 2014 implementation deadline. Central to this failure was the role of France, which began to rethink its position on the Commission's broad-based proposal, especially as it related to the issue of derivatives (i.e., complicated financial transactions – often speculative – that 'derive' their value from the performance of another asset).

Constituting over two-thirds of the estimated €34 billion from the proposed tax intake, derivatives were to be a crucial component of the policy's overall success. However, the politically troubled mid-term of French President François Hollande was characterized by re-engagement with the domestic business community, leading to an about-turn on the taxing of derivatives. In response to fears of the French financial community, a charge on derivatives was now seen as severely damaging to the interests of Paris as a major financial centre within the global economy and as undermining the new Place de Paris 2020 initiative (announced in mid-2014) to boost the French financial industry. Furthermore, a number of other Council members began negotiating for specific exemptions on products such as pensions or corporate and government bonds, thus opening the prospect of multiple exemptions to a

future FTT.

In effect, the manipulation of policymakers' fears by financial associations regarding the structural impact of a broad-based FTT had paid off. Subsequently, in an explicit effort to save face before the new parliamentary election in May 2014, European leaders agreed upon a rushed compromise that: 1) pushed back the start date of the FTT to 2016; 2) agreed that the charge would be implemented provisionally on a very narrow basis; and 3) was projected to raise just a fraction of the originally intended sum. The deal was criticized in harsh terms by a range of FTT civil society supporters, condemned as 'window dressing' for voters before the EU parliamentary elections and – crucially – involving a "tax base [that] is far too small to have any effect."[22]

Worryingly, the inclusion of specific exemptions for particular transactions and the rejection of the Commission's AAA approach open up the possibility that a future FTT will be subject to massive tax avoidance – putting at risk the already hugely decreased revenue estimates. As then European Tax Commissioner Algirdas Semeta warned in January 2014, an FTT that is "full of holes" is one that has little chance of effectively combating relocation concerns in a world of highly mobile financial capital.[23] At the time of writing (January 2015), the FTT remains mired in a political stalemate as European Council members continue to negotiate on the precise form of the taxation policy. Although the EU11 countries still maintain their intention to implement the charge in January 2016, this deadline is becoming increasingly unlikely as key outstanding issues are proving difficult to resolve.

The primary conflict revolves around the scope of taxation and debate concerning what kind of derivatives (if any) should be included in a final deal – an outcome that France continues to oppose. However, even Germany's Minister of Finance Wolfgang Schauble – one of the FTT's most prominent supporters – concedes that the "result [of negotiations] will be modest",[24] garnering just a fraction of the originally targeted €34 billion. Compounding these bleak prospects is the recent appointment as the new European Commissioner for Taxation of Pierre Moscovici, the former French Minister of Finance who was centrally involved in the Hollande government's sudden about-turn on the FTT.

Conclusion

The case of the European FTT is just one specific example of the potent political influence of the financial industry within the contemporary global economy. However, across most major policy proposals put forward since the financial crash, one can find such ubiquitous financial sector influence over the final outcomes. With this in mind, I conclude with two suggestions for civil society and activists to challenge the disproportionate political and economic position of the financial industry vis-a-vis other social groups.

First, the current ideological power of finance that promotes a neoliberal policy consensus is politically vulnerable and within that context, there is an opportunity to rein in the excesses of the financial sector. Nevertheless, the urgency for reform that prevailed throughout 2008 and 2009 has rapidly dissipated and official sector regulators have lapsed back into a status quo mindset of conservative and technocratic tweaking of financial rules. This conservatism is partially a product of the fear of making the economic situation worse by taking strong political action against the financial industry.

Civil society groups need to reignite this sense of urgency for more ambitious policy action by explicitly linking the absence of substantial financial sector reform with the lack of a robust economic recovery. As long as financialization remains the dominant form of economic accumulation, investment is systematically diverted from productive uses within the real economy towards speculative and socially dubious practices within the financial system.

This situation is most vividly reflected in the excessive reliance that authorities have placed upon monetary policy (i.e., money supply and interest rates) as the primary tool driving economic recovery as opposed to fiscal policy (i.e., government spending and taxation). Instead of stimulating flagging demand and prompting a new wave of productive activity, authorities are promoting the creation of new asset bubbles (in particular, property) and stoking excessive risk trading within the financial industry itself. These policies also allow major financial firms to remain heavily indebted and risk-taking, and exacerbate the prospect of another costly crisis in the not-too-distant future.

Emphasizing these points, civil society groups should consistently argue that the path to durable economic recovery involves a highly chastened financial sector that plays a largely functional role in the global economy, providing funds to credit-starved businesses rather than driving new activity internal to the industry itself. Crucially, this must be complemented by a concrete public spending plan in infrastructure and services projects such as social housing, national transport, job reskilling, 'green industry' research and investment, and other stimulus programmes premised upon the specific needs of individual economies.

Secondly, most arguments proffered by the financial sector depend upon some version of structural power; that is to say, that political action against the financial sector will result in economic damage to the broader economy. Such arguments must be combatted vociferously by civil society. In many instances, financial sector representatives disseminate highly inflated figures concerning the economic repercussions of regulation premised upon dubious impact assessment reports. These reports too often go unchallenged and thus exploit the genuine concerns of policymakers who are unsure of the consequences. Such 'doomsday scenarios' must be repelled by activists in two ways: on the one hand, by constructing their own sophisticated impact assessments that challenge the anticipated negative impact on economic activity; on the other hand, by highlighting the positive benefits of financial reform such as stable credit flows, the discouragement of socially useless trading, the revenue-raising potential of particular measures (e.g., FTT), etc.

Of course, there is no simple way for civil society to develop the technical expertise required to counter the financial sector lobby – it requires a further prioritization of time and scarce resources to these complicated issues. Nevertheless, activists have little option but to proceed with this task in the context of a deeply 'financialized' global economy. ❒

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(continued from page 14)

and overall governance, are deeply worrying, as is the absence of meaningful language on systemic reforms of global institutions that will address the root causes of poverty (such as debt cancellation for the poorest countries).

Nonetheless, the text encompasses a bold spectrum of the three pillars of sustainable development: economic, social and environmental. And there is a fair amount of progressive, development-oriented language, as well as some demonstration of political will to prioritize a more holistic framework for development through sustainability.

In a complex negotiation process amidst sharp differences and disputes among member states, the work going forward will be to ensure that the forthcoming UNGA negotiations take place based on the document as it stands now, in a manner that is inclusive, transparent and accountable, without any further dilution or deletion of the hard-won gains in the SDG text as it currently stands, and with an upward trajectory towards ensuring key deliverables not only in finance and technology but, more importantly, a genuine paradigm shift in a world economy that sustains itself on entrenched inequalities. ❒

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Endnotes

1. The country perspectives noted in this article are based on the Third World Network's witnessing the OWG negotiations firsthand between March 2013 and July 2014.

2. The Rio+20 outcome document, "The Future We Want", states in paragraph 247 that SDGs are supposed to be "global in nature and universally applicable to all countries while taking into account the different national realities, capacities and levels of development and respecting national policies and priorities".

Analysis

A déjà vu agenda or a development agenda?

Despite some progressive language, the current incarnation of the Sustainable Development Goals – meant to be a centrepiece of the post-2015 development agenda for the international community – suffers from many of the same flaws that plagued the Millennium Development Goals and may end up perpetuating North-South inequalities on the development front.

by Bhumika Muchhala and Mitu Sengupta

While the Millennium Development Goals (MDGs) have been lauded for focusing the world's attention on poverty, they have also drawn sharp criticisms. Perhaps the most damaging of these is that although the MDGs are meant to be a universal agenda for all countries and all people, in reality they reflect the priorities of the world's most affluent countries and powerful agents, prescribing goals for the South but allowing the North to bypass any real commitments, save for aid commitments, of which not all have been met.

Other serious criticisms are that the MDGs were formulated in an undemocratic manner with little meaningful input from civil society and developing countries; that they contributed to the shrinking of national policy space in developing countries; that they merely addressed the palliative symptoms of poverty while wholly ignoring the structural drivers of underdevelopment; and, most worryingly, that they disproportionately burdened the poorest countries of the world while demanding very little from rich countries and other influential agents, such as international financial institutions and multinational corporations.

The official debate on the Sustainable Development Goals (SDGs), which will replace the MDGs when they expire in 2015, is moving very quickly at the United Nations. The content of the SDGs will be finalized in the course of the year through a process of intergovernmental negotiations, and it is expected that the UN General Assembly (UNGA) will adopt the new goals in September 2015 as the key component of a broader post-2015 agenda.

Steered by the UNGA's Open Working Group (OWG) on SDGs, the first set of negotiations took place between March 2013 and July 2014, with developing countries, organized in the Group of 77 (G77) and China, consistently calling for the inclusion of means of implementation (MOI), through finance and technology, and structural reforms to international systemic issues, such as trade and finance rules.[1]

Despite a number of improvements, in both process and substance, the SDGs proposed by the OWG suffer from the same key defects as the MDGs, do not pay sufficient heed to the G77's central demands, and may raise the spectre of a new layer of environment-related obligations for developing countries without the concomitant financial or technological resources.

Another most worrying trend is the aggressive cementing of "multi-stakeholder partnerships" into the SDG discourse, which explicitly implies a lead role for multinational corporations and foundations in development financing and agenda-setting, particularly through public-private partnerships.

Indeed, if deliberations on the post-2015 agenda do not take a radically different turn, the much-touted language of "universality" and "partnership" that saturates the emerging framework will do little more than serve as vehicles – and masks – for exacerbating and expanding the privatization agenda and North-South asymmetries of the existing, fundamentally flawed neoliberal paradigm.

The universality problem

The absence of measurable targets, indicators and achieve-by dates for MDG-8, the only goal among the MDGs that deals directly with the responsibilities of affluent states and international agencies, suggests that the MDGs were essentially a slate of instructions for the developing countries alone.

The notion that the SDGs are a universal framework, in contrast to the MDGs, has defined the very understanding of the SDGs. The UN has taken great pride in the claim that the new goals will be universally applicable. Yet, actual negotiations on the SDGs have betrayed a different reality. Deliberations at the OWG have been marked by chronic resistance by developed countries to the inclusion of meaningful and substantive language for MOI targets that would require action by developed countries.

This has led the G77 to express concern that a "universal" agenda is now dangerously implying that there are no differentiations between developed and developing countries, and that developing countries will be stuck between a rock and a hard place. On the one hand, they will not have the structural, financial and technological support they will need to implement the SDGs, and on the other, they will not have adequate policy space to carry out their development plans. While rhetorical language on policy space is in the document, developed countries routinely blocked the operational language of commitments, which is nuanced with the clause "with respect to nationally defined policies and priorities". It was only after an intense session in July that some basic demands by the G77 for the MOI were ceded to.

Most crucially, the last few days of the OWG negotiations witnessed an almost-total rejection of all instances where developing countries nuanced commitments, particularly in Goal 12 on sustainable consumption and production, with the clause "developed countries taking the lead". While the developed countries refused to "take the lead" on target commitments, on MOI where they already have existing commitments, they actually demanded equal treatment and suggested that forthcoming MOI should also be available to them for use.

Such actions of developed countries threaten the very definition of universality that developing countries had unanimously clarified from the outset of the SDG discussions in March 2013. This understanding of universality, affirmed by the Rio+20 conference outcome document "The Future We Want", is that while SDGs will be universal to all countries in nature and relevance, the degree of national responsibility in the implementation of the goals should be differentiated in accordance with the varying capacities, realities and devel-

opmental levels of countries.[2] A cursory interpretation of this mandate of universality and differentiation could jeopardize the balance, coherence and impact of the SDGs.

Pathway for private sector

Perhaps the most crucial failure of the SDG text is the complete absence of the global partnership for development in its original invocation as that of international cooperation on a broad range of key development issues, principally between governments of developed and developing countries, with the developed countries taking the lead in providing resources and the means of implementation. The global partnership for development is supposed to be an enhanced and strengthened version of the paltry MDG-8.

While some developing countries urged that it is imperative to recapture the term with its original meaning and not allow it to be isolated only as partnerships with the private sector and civil society, developing countries did not call for this with as much urgency or collective action as they did for many other structural issues.

In previous OWG discussions, Brazil and the Community of Latin American and Caribbean States (CELAC) were the only countries to explicitly caution against excessive reliance on private sector financing for sustainable development. They argued that a comprehensive assessment of existing and future partnerships should be carried out through a governance model that ensures *ex ante* transparency and accountability. Such assessments should take into account the impact, accountability and compliance of existing partnerships, and their institutional arrangements, with the principles and governance mechanisms of the UN.

They had pointed out that while the UN should be open to catalyzing all existing support for sustainable development, this should not facilitate an evasion of government responsibility, or be a means of compensating for unmet commitments in official development assistance, from both developed and developing countries. Brazil had expressed in strong words that outsourcing development cooperation to the private sector raises serious issues about the UN as an intergovernmental organization, in large part because they have expanded outside the purview of intergovernmental oversight, without regular and effective participation by member states.

Since it became clear, during the course of 2013, that private sector partnerships will distort the original global partnership for development, a critical mass of global civil society groups, along with progressive academics, have argued that public-private partnerships need to be accompanied by a governance framework, led by the UN, within which private sector partnerships can be held accountable and transparent.

Such a governance framework should incorporate accountability, *ex ante* assessment and criteria, transparent reporting, independent evaluation, and monitoring mechanisms. Furthermore, partnerships should demonstrate sustainable development results in developing countries, and this should formulate a key criterion that must be met before a private sector actor is able to engage in a "partnership".

Classic negotiation tactic

The particular tactic of "forum-shifting" has been widely employed in the SDG negotiations. Developed countries have repeatedly argued, for example, that all content related to systemic and financing issues should take place through the Financing for Development Conference (to be held in Addis Ababa, Ethiopia, in July 2015) and through the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF). The rationale provided by developed countries is that the SDGs must show respect for other UN intergovernmental processes, and that the OWG could be, at best, a forum for reaffirming earlier commitments but not for making new commitments. Developing countries, on the other hand, have argued that while other processes such as the ICESDF have important bearing, they cannot decide the actual language negotiated for the SDG document.

More significantly, however, developed countries have consistently attempted to diminish the leadership role of the UN. For example, under the mandate of the Rio+20 outcome document, the UN in New York has been holding discussions on a global technology facilitation mechanism for the objective of sustainable development that would strengthen North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation. Developing countries pressed for this mechanism to be housed under the UN while developed countries tried to evade this.

Furthermore, when discussions of structural macroeconomic, trade and finance issues arise, developed countries would immediately claim that these issues are the domain of international financial institutions, namely, the International Monetary Fund, the World Bank and the World Trade Organization, as well as other institutions such as the Financial Stability Forum and the Bank for International Settlements. The line of argument is that the UN does not have the technical expertise or the legitimacy to adequately address such issues, which have their home elsewhere. Thus, systemic issues are kept out of reach for the one global arena (the UN) that has an equitable governance structure.

The G77's 50th anniversary summit in June produced a critical declaration that stressed, within its 242 paragraphs, the central role of the UN in global economic governance. The declaration outlined how the General Assembly and a strengthened Economic and Social Council (ECOSOC) in the UN could both act to mitigate the impact of the international financial and economic crisis and to ensure the right of developing countries to policy space for sustainable development. The G77 urged the UN Secretary-General to further strengthen the development pillar of the whole organization, and urged developed countries to show real political will to enable the UN to improve its capabilities in the social, environmental and economic development fields.

Conclusions

The adoption of the SDG document by the OWG in some sense is a step forward, even though the text fails to substantively address an enhanced global partnership for development and structurally relevant means of implementation both within the goals and through themes of trade, finance and technology. The myriad green lights given to private sector financing and partnerships for sustainable development, without any specific language on evaluations, accountability, transparency

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Towards a lasting solution to sovereign debt problems

Given the looming prospect of a sovereign debt crisis and the inadequacies of existing debt relief measures, a fair and efficient mechanism for sovereign debt workouts is urgently needed. This was the call made by 27 civil society groups in the following submission to the 3-5 February opening session of a UN ad hoc committee formed to elaborate a multilateral legal framework for restructuring sovereign debts.

Following the global financial crisis, low-, middle- and high-income countries are seeing increased levels of sovereign debt. Today no international mechanism exists to deal comprehensively and effectively with sovereign debt problems. A lasting solution requires an independent debt workout mechanism.

A looming debt crisis

Countries all over the world are becoming increasingly vulnerable to sovereign debt problems following the financial crisis:

- One quarter of all low-income countries are in debt distress or at high risk of debt distress. Another 29 countries are at moderate risk of debt distress.[1]
- External loans to low-income countries increased by 75% between 2008 and 2012, a growing share is expensive non-concessional debt, and vulnerabilities are increasing.[2]
- Two-thirds of impoverished countries face large increases in the share of government income spent on debt payments over the next 10 years.[3]

This looming debt crisis and the failure to deal efficiently with the current and past crises have triggered debates on how to ensure fair and predictable debt workout in the future.

The current debt crisis within the eurozone and the vulture-fund lawsuits against Argentina illustrate once again that a predictable, efficient, independent and fair procedure is needed, and that once a crisis hits it is too late to define a fast and fair way out. They are also a reminder that debt and the way sovereign debt is dealt with is a highly political issue which can have enormous social and political consequences if not dealt with in an efficient way, including holding lenders to account for reckless lending and speculation.

Why current mechanisms are not up to the mark

Current debt relief procedures were not intended to deal with today's complex debt structures. The Heavily Indebted Poor Countries (HIPC) Initiative is coming to an end,[4] and existing mechanisms do not reflect the actual debt situation of developing countries. Ad hoc procedures exist for bilateral debt to a few countries and for some bondholders; however, these creditors hold only a minor part of developing countries' debt.

While debt relief has freed up valuable resources in a number of developing countries, the mechanisms through which debt relief has been granted have serious shortfalls that prevent lasting solutions.

> *"As you know, much has been done to strengthen the architecture of the international financial system in response to the recent emerging market financial crises. But there remains a gaping hole: we lack incentives to help countries with unsustainable debts resolve them promptly and in an orderly way. At present the only available mechanism requires the international community to bail out the private creditors."*
>
> Anne Krueger, former Vice President of the IMF, in 2002

Some major shortfalls of current mechanisms are:

- They are dominated by creditors who are also affected parties. This creates a conflict of interest, undermines impartiality and sometimes results in politically biased decisions, including harmful policy conditionality.
- They are ad hoc, which means that the process as well as the outcome is highly unpredictable. This lengthens the solution process, making it more costly for both creditors and debtors.
- They are creditor-specific, hence they fail to assess the full debt burden of the country in question and some creditors are left out when a solution is negotiated.
- All too often, they only make financial considerations when assessing how much debt a country can continue servicing, and fail to take development needs into account.
- Last but not least, because of the lack of a formal procedure that ensures fair burden-sharing between creditors and debtors and assesses the validity of claims, current procedures fail to discipline lenders and prevent them from irresponsible lending in the future.

These shortfalls illustrate that lending to and borrowing by sovereign states and the resolution of any quantitative or qualitative debt problems are a political issue as much as a

The United Nations General Assembly echoes these concerns and proposals

In a landmark session held in September 2014, the UN General Assembly noted with concern "that the international financial system does not have a sound legal framework for the orderly and predictable restructuring of sovereign debt". It stressed that "creditors of sovereign debt are increasingly numerous, anonymous and difficult to coordinate", which complicates the restructuring of sovereign debt when necessary. It highlighted that the progressive development and codification of international law are necessary, and decided to create a new multilateral legal framework for sovereign debt restructurings by September 2015. The UN General Assembly also highlighted "that debt-restructuring processes should have as their core element a determination of real payment capacity so that they do not adversely affect economic growth and the fulfilment of the unfinished business of the Millennium Development Goals, the sustainable development goals and the post-2015 development agenda".

technical one.

A fair solution to sovereign debt problems requires an international mechanism that:

- is independent of creditors in analysis and decision making, and is situated in a neutral forum;
- is comprehensive: Includes bilateral, multilateral and private creditors, treating all foreign creditors on an equal basis, and is available to all sovereign states who are at risk of debt distress or claim that their debts are illegitimate;
- provides a human needs-based approach to debt sustainability: When assessing a government's capacity to service its debt, takes into account the financial resources needed by a government to fulfil its obligations to provide essential services for its population;
- holds lenders and borrowers to account for irresponsible behaviour by auditing the legitimacy of claims and demanding the cancellation of unjust debts based on corrupt, irresponsible or undemocratically contracted loans which did not benefit the people of the borrowing country;
- gives all stakeholders, including civil society, the right to be heard and give evidence. ❐

The above submission was presented by ActionAid International, Afrodad, Both Ends, Christian Aid, CIDSE, CNCD-11.11.11, Debt and Development Coalition Ireland, Ekvilib, Erlassjahr, Eurodad, Global Justice Now, Global Policy Forum, IGO, ITUC, Jubilee Debt Campaign UK, Jubilee Scotland, Jubilee USA Network, Kepa, KOO, Latindadd, Methodist Tax Justice Network, Norwegian Church Aid, Norwegian Forum for Development and Environment, Oxfam International, Share the World's Resources, Third World Network and WEED.

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are high." When oil prices are low, these governments should use reserves to ensure that poor people are protected through social safety net programmes, he added.

Precarious

Akonor told IPS that, as impressive as the current and long-term economic projections for Africa might seem, it does not change the precarious and fragile nature of the continent's economic foundations.

"The high debt overhang and the heavy reliance on raw materials (such as oil) and minerals for exports, makes African economies susceptible to shock and systemic risks," he noted.

Moreover, he said, the underlying human capital formation, especially amongst the burgeoning unemployed youth population, lacks the requisite skills that could lead to real sustainable growth and transformation.

"What is needed then is the effective implementation of development strategies and policies that would lead to long-term structural transformation and durable human development," he argued.

One way to achieve this is through closer regional cooperation, given the small size of domestic markets and poor continental infrastructure. Transformative and human needs development must, amongst other things, address Africa's poor infrastructure, said Akonor.

According to the African Development Bank, the road access rate in Africa is only 34%, compared with 50% in other developing regions. Only 30% of Africans have access to electricity, compared to 70-90% in other developing countries.

"What makes Africa's development challenges vexing is that there has not been a shortage of autonomous development-related ideas between African leaders and interested publics," Akonor said. One can argue that Africa has debated and produced too many blueprints and programmes for over half a century without any tangible results or follow-through, he said.

"Thus the major obstacle to durable economic performance in Africa has not been the ambitious nature of the development targets, but rather the absence of political will by African governments and the lack of consistency, coordination and coherence at the sub-regional, regional and even global levels to implement structural change," Akonor declared.

"Transformational development will require that Africa add value to, and diversify, its export commodities. Building a solid industrial base and infrastructural capacity are also necessary prerequisites toward autonomous structural change."

Fan told IPS that on the broader issue of the factors that influence food prices, it is important to realize the right price of food is not easy to determine. What is important is that the prices of food (including the natural resources that are used for food production) fully reflect its economic, social and environmental costs and benefits in order to send the right signals to all actors along the food supply chain.

"If this causes food prices to increase, social safety nets should be provided to protect poor people in the short term and also to help them move on to more productive activities in the long term," Fan said. In so doing, their food security and nutrition is not compromised, he declared. *(IPS)* ❐

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