

## Submission by UK Churches' towards a sustainable and equitable reordering of global economic relationships

*The world is too much with us; late and soon,  
Getting and spending, we lay waste our powers:  
Little we see in Nature that is ours;  
We have given our hearts away, a sordid boon!*  
**William Wordsworth**

*The earth is the Lord's and all that is in it,  
the world, and those who live in it;*  
**Psalm 24**

1. Churches in the UK have had the opportunity to reflect theologically and practically on some of the underlying causes and impacts of the global economic crisis at various conferences, seminars and synod debates over the past few months. Based on these reflections, we believe that we have an important contribution to make to the current debate on the reordering of global economic relationships from our Christian faith perspective.
2. Our submission is premised on the principle that the fundamental failure of the market system exposed by the financial crisis is a *moral* failure; as such it requires a moral response. We therefore reject any proposals for the recovery or regulation of the financial markets predicated on the principle of a return to *business as usual*, as this implies a return to unethical business and economic relationships.
3. Instead, we offer as a starting point what we consider to be core ethical principles for the reordering of our global economic relationships in a world characterised by increasing human greed, inequality, injustice, environmental degradation and ecological crisis. These specifically include the principles of *sustainability*, *solidarity*, *subsidiarity*, *social justice* and *equity*, and *accountability* in the use of public resources and the performance of roles of public trust.
4. Commitment to these ethical principles should be seen within the broader context of our orientation to the *common good* i.e. the complete flourishing of all human individuals and groups based on the requirement that no individuals or groups are to be excluded from enjoyment of the benefits of social, economic and cultural collaboration; that human wellbeing requires more than the satisfaction of basic needs, and must be guided by a more comprehensive vision of a life worth living.
5. We specifically reject the hollowness of the dominant secularist and consumerist images of well being which neglect our relationship with God and the rest of Creation which we consider essential to human flourishing. Whilst acknowledging that there are a number of obstacles to such an orientation, we believe that a commitment to the *common good* could transform the current narrative of blame and accusation to one of shared responsibility and commitment to building an equitable and sustainable global economy.
6. Towards this end, we would like to highlight the following issues for the leaders attending the **G20 Summit** in London to give their urgent attention based on the principles of sustainability, solidarity and social justice:

- **Climate Change** – we consider the issue of climate change to be of critical importance to achieving a sustainable and economically viable recovery for the global economy. We therefore note the following:
  - i. The fiscal stimulus packages being assembled by the governments of the G20 could be used to help break the strong relationship that currently exists between economic activity and carbon output. If this is not a specific intention of fiscal stimulus then it is more likely that such packages will return us to a business as usual path in relation to carbon emissions. We note a recent study by HSBC has assessed the nature of the stimulus packages so far announced and alleges that the UK's efforts do less than most in seeking to achieve a low carbon recovery. We urge the UK government to invest more seriously and imaginatively in a reorientation of our economy, power sector and infrastructure to achieve our shared goals on climate change.
  - ii. We draw attention to the call of several churches leaders in the UK who have joined with others in Europe to demand a strong international agreement on climate change. Specifically we expect the G20 countries to agree to take the necessary action to limit carbon emissions to such that global temperature rise can be stabilised at no more than 2 degrees above present levels. Carbon reduction targets must relate to real reductions in domestic emissions and should not be achieved with 'clean development' credits that, if extensively used, threaten to undermine the discipline of the global carbon market. Additionally we have called on Governments to set targets for investment to help developing countries grow economies that are not dependent on carbon fuels and thereby tackle poverty and inequality.
- **Currency Transaction Tax** - we support the call made by Stamp Out Poverty and other organisations for a levy to be implemented on all foreign exchange transactions at the rate of half a basis point or half of one hundredth of 1% (0.005%), to increase development finance. This rate is too small to alter decision making in the market and yet high enough to yield a substantial revenue stream – see **Appendix 1**.
- **Special Drawing Rights (SDR) by the IMF** – we likewise support the proposal outlined in **Appendix 2** for the IMF to consider a separate transmission of SDR's explicitly geared towards reducing or cancelling the outstanding debts of the most highly indebted nations.
- **Tax avoidance and regulation of tax havens** – We note with concern the fact that an estimated \$11.5 trillion in assets from around the world may be hidden in tax havens equating to billions of dollars in tax revenue. We therefore support the call for more accountable reporting and stricter regulation of tax haven jurisdictions. However, we would encourage a more holistic approach to tackling tax avoidance aimed at

increasing transparency by companies in order to bring to an end transfer mispricing and other tax avoidance practices. We encourage the G20 summit to agree support for effective tax regulation to establish international accounting standards and regulatory processes requiring companies to provide country-by-country reporting. Such transparency is a precursor to providing investors, regulators and tax authorities with the means to highlight and challenge tax avoidance.

- **Governance considerations** – we agree with the assessment of the *Put People First* campaign that ‘blind faith in the virtues of the market, inadequate public control and regulation of finance, lack of transparency and accountability of financial institutions and the secrecy provided by offshore financial centres are at the heart of this crisis.’ We therefore add our voice to those calling for democratic governance of the economy based on the principles of accountability and transparency. This applies to both international and national financial institutions and multinational corporations who have become increasingly unaccountable and secretive in their practices and reporting. We therefore support the demand for fundamental reform of institutions like the World Bank and IMF and for regulation of financial institutions, markets and products to ensure they enhance the common good.
7. We are aware that some of the expectations of the G20 Summit in London are unrealistic and that this significant event marks the start of a process of dialogue, negotiation and debate towards establishing a framework for a sustainable and equitable recovery from the global economic crisis. In the interim, the livelihoods of those on the margins of mainstream economic activity are rapidly deteriorating and we urge the G20 leaders to develop meaningful and urgent interim policies and programmes to mitigate this impact.
  8. We commit ourselves as churches in the UK to praying for the G20 Summit and for the UK Government as they host and facilitate this historic gathering of world leaders in London in April.

**For and on behalf of the undersigned:**

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## Appendix 1

### The Currency Transaction Tax (CTT): implementing a levy on foreign exchange transactions to increase development finance

**Purpose and requirement:** A significant financing gap exists to meet the Millennium Development Goals by 2015 particularly relating to health. There is an urgent requirement for a substantial new source of hitherto untapped revenue.

#### Why – the foreign exchange (FX) market?

The volume of the foreign exchange market is immense and growing. Perhaps it is not surprising that it is the largest market in the world since it is the trade in money itself. In 2004, the market was worth \$1,900 billion a day (\$1.9 trillion), which equates to \$500 trillion a year. By 2007: \$800 trillion a year – a 71% increase. In 2008: more than \$4 trillion a day or 1,000 trillion a year. In this financial crisis unlike most other areas (of the financial market) the FX market is still growing. This is, therefore, a very robust income base.

#### Technically feasible

1) The **market is fully electronic**. Collection is computerised. Payment is automatic when a currency trade is settled. So it is efficient and inexpensive to implement with little scope for avoidance.

2) The **rate** of the CTT at half a basis point or half of one hundredth of 1% (0.005%) is **too small to alter decision-making in the market** and yet high enough to yield a substantial revenue stream. The rate was proposed by City of London think-tank, Intelligence Capital - whose President, Avinash Persaud, has just been appointed to the UN President's taskforce on the Financial Crisis under the leadership of Professor Joseph Stiglitz. In work for the UN University last year, Professor Rodney Schmidt undertook the most detailed econometric modelling to date, showing that at a rate of 0.005%, the levy is too low to affect the structure of the market – whilst at the same time producing **potential revenue of the order of \$33 – 60 billion a year**. Please see reports (including Schmidt) here:  
<http://www.stampoutpoverty.org/?lid=10556>

3) **Precedent:** UNITAID, which is principally financed through aviation levies (and has helped drive down drug prices and develop new treatments for HIV/AIDS, TB and malaria) **exemplifies the use of nationally collected tax revenue, pooled internationally, and spent on a global public good**. Importantly, it has not required universal participation to work. Countries that wish to participate work together to harness the income stream.

Critics have stated historically that a currency tax requires all countries to take part or it cannot be done. This is not so - countries can apply a currency duty on transactions of their own currencies on a unilateral basis and the tax can be captured wherever the trade takes place in the world. Avoidance is difficult in today's computerised marketplace, apart from being illegal and therefore a considerable risk to an institution's reputation. There is no technical barrier to a CTT - what is required for implementation is sufficient political will.

Indeed, **financial transaction taxes are commonplace** throughout the world on bonds, stocks and ordinary transfers. Examples include the UK Stamp duty on share transactions that at a rate of 0.5% raises billions of pounds each year for the

Treasury. Currency transactions are unusual in that they have remained exempt from taxation. This is an anomaly that now needs to be ended.

**Good time/bad time:** Given the financial crisis with banks under stress is this the right time to propose a tax on a hitherto untouched area of their business? Opinion-formers such as the Guardian and the FT have featured articles in recent months by experts such as Jeffrey Sachs arguing the opposite – that this is exactly the right time to capture revenue from this previously untapped segment of the finance world. Historical opposition from the banking world itself is muted as many banks find themselves under government control. Both the financial crisis and a more open policy space due to the change of President in the US are allowing a more open-minded approach to possible financing solutions.

**Conclusion:** In times of such great financial stress, can the world leave untapped such a rich source of revenue as a tax on currency transactions?

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## Appendix 2

### **Memo about a possible SDR-related proposal for the G 20**

1. The present economic crisis has two main characteristics:
  - i. it is a crisis which not only started as a financial crisis, but continues to be accompanied and deepened by on-going chaos in the banking sector; and
  - ii. it is a crisis which is also characterized by a diminishing level of effective demand in the countries of the South; it is also increasingly an economic crisis of diminishing global expenditures.
2. It is interesting to note that most proposals to fight the present crisis, including those made in the context of the coming G20 meeting, do not make a clear connection between these two characteristics. Most efforts are oriented towards national plans to supplement or restore distorted bank-balances (in order to restore the willingness of banks to provide credit), combined with efforts to rescue strategic industries with some kind of financial support. No plans appear to be available which tackle the crisis at a global level in the context of both sustainability and solidarity.
3. Three options that are neglected are however available here and should be carefully considered :
  - i. **the option of a primary enhancement of the level of global effective demand in, and via, the economies of the countries of the South instead of (primarily) via the economies of the North.** Most rich economies in the North already live on too high, and therefore unsustainable, levels of resources and energy use. It is of the utmost importance that the level of expenditures in the world economy be restored from the perspective of both *solidarity* and *sustainability*, and not from the perspective of higher material Western mass-consumption.
  - ii. **the option of debt-relief and debt-cancellation:** It is generally acknowledged that the debt-crisis is at the heart of the present economic crisis. If so, the continuing debt-position of the countries of the South should be seen not only as a part of the same problem, but also as a part of possible solutions;
  - iii. **the option of and need for a restructuring of the banking sector**, as indicated by Stiglitz and others, if possible also leading to an improvement of the capital (and leverage) basis of the most responsible banks.
4. In this context it would of course be wonderful if the G-20 could reach an agreement on a voluntary joint substantial debt-cancellation of the most indebted countries (SILICS) in the South to enlarge their combined import-levels and the world's global effective demand: it is not however realistic to have these expectations. **However, they could change their mind if another way is chosen: namely a separate transmission of Special Drawing Rights by the IMF, geared to the explicit purpose of a reduction or cancellation of the existing debts of the countries of the South.**

*Firstly*, this would cost almost nothing to them because SDR's are emitted freely. *Secondly*, it would substantially decrease the debt burdens of the South, and thus contribute to the fight against the global economic crisis. And *thirdly* it would also substantially improve the capital position of those banks in the North which invested in previous years in the economies in the South, which were not usually the worst banks.

5. The question then arises whether this is possible in the context of the present IMF rules? Not entirely - but there is a remarkable precedent! In his book "George Soros on Globalization" Soros vividly describes on page 77, how in 1997 "the IMF members agreed to amend the IMF articles to allow a single special "equity" allocation of SDR's, that would channel a bigger share to the former Soviet republics and other transition countries as well as poorer member countries than would result from the standard quota-based distribution". The amount of 21.433 billion dollars is mentioned there.
6. This provides an important entry point to reopen the debate (perhaps via the Club of Paris) as to whether a solution could be found to buy existing debts against their present market value, and allow the indebted countries to use the difference between the nominal and the market value of these debts for new, peaceful and sustainable investments in their own economies. That would imply a second impulse to escape from the present crisis in the world economy.

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