financial

IMPOSSIBLE ARCHITECTURE

Finances are usually explained in water metaphors: money "flows", benefits from growth "trickle down" to the poor, capital "leaks" out of countries to tax havens…

From a first glance at this construction, most people will see a waterfall, in the very same way that most of the public in rich countries thinks there is an enormous flow of their tax contributions to poor countries, in the form of aid, loans, trade benefits and frequently talked about debt cancellations. If poverty persists it must somehow be the fault of the poor people themselves or their governments.

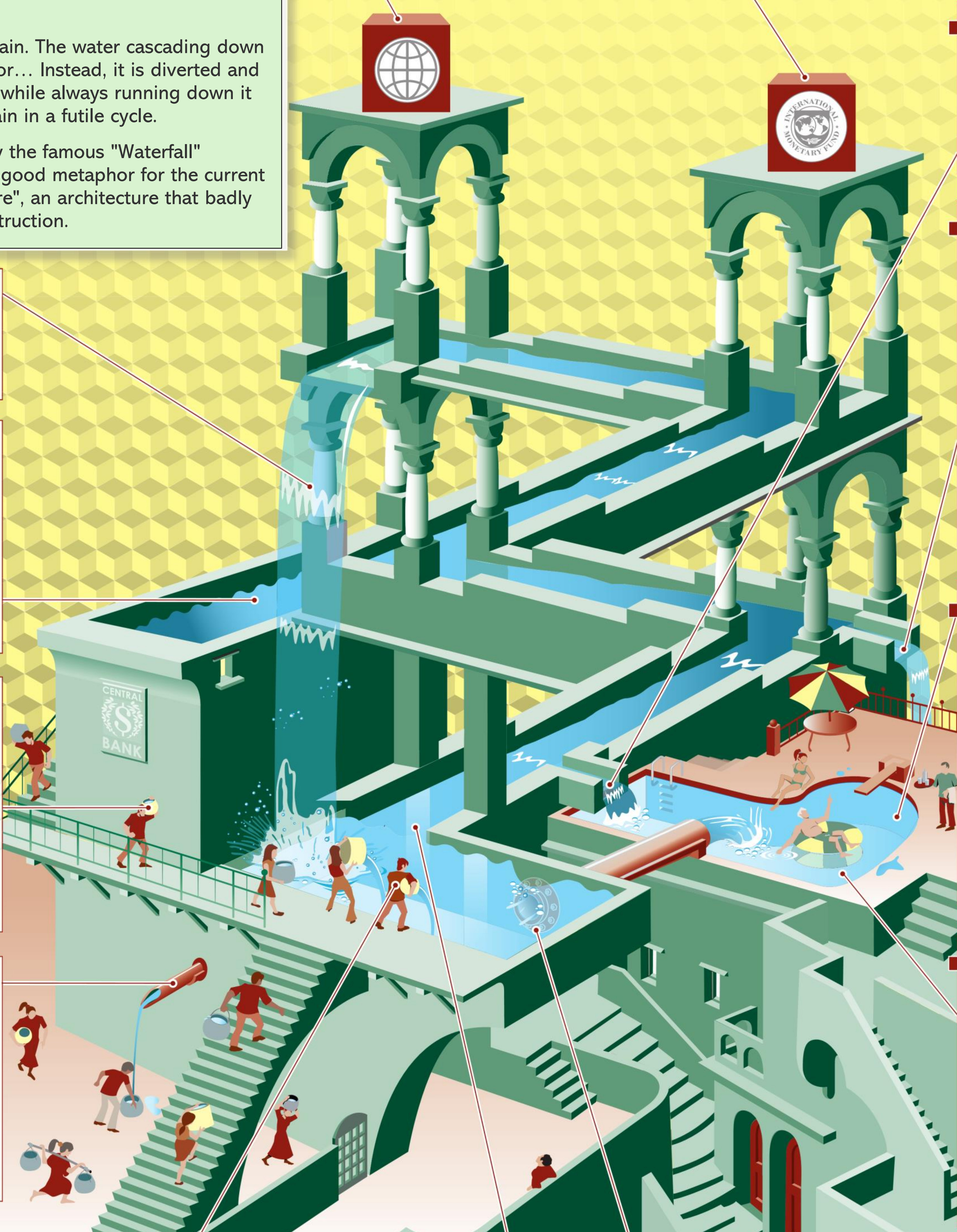
Now look at the picture again. The water cascading down doesn't quite reach the poor… Instead, it is diverted and –against all rules of logic– while always running down it still ends up at the top again in a futile cycle.

The illustration, inspired by the famous "Waterfall" etching by MC Escher, is a good metaphor for the current "global financial architecture", an architecture that badly needs a substantial reconstruction.

A gentlemen's agreement: In 1944 a conference of the World War II allies created in Bretton Woods a bank to reconstruct Europe (that later became the World Bank) and a fund, the IMF, to prevent financial crisis. An unwritten agreement gave the presidency of the Bank to the US and that of the Fund to Europe. Most of the current members of the United Nations were under colonial rule and had no say.

Veto power: Important decisions in the Bretton Woods institutions require an 85 percent majority and thus, with 16 percent of the votes, the United States is the single country with veto power. But to form a majority, it must coordinate with the other G7 countries (Canada, France, Germany, Italy, Japan, and the UK) also with the G10, composed by the G7 plus the Netherlands, Belgium, Sweden and Switzerland. The board decisions cannot be appealed.

In January 2022 ten former Ibero-American presidents demanded "that the IMF takes responsibility" for its record loan to Argentina aimed at getting a friend of the US president re-elected. The largest loan in IMF history funded massive capital flight and impoverished millions, but the IMF director still became head of the European Central Bank.



Stingy countries: In 1970, the OECD countries agreed to spend 0.7% of GNP on development assistance. They never reached half of that, even with inflated figures.

Short of money, but with tanks full of it: Due to global financial instability, developing countries must keep huge reserves of unused money to defend their currencies from speculation. They borrow at high rates and lend some back (buying US Treasury bonds) at a lower rate.

Remittances: Money sent home by migrants is the largest source of external finance for low- and middle-income countries. It exceeds foreign direct investment and triples the volume of Official Development Assistance. 8% of what is sent to sub-Saharan Africa is lost to intermediation.

Few drops reach the poor: Only a fraction of ODA supports development in the poorest countries. In-country aid to refugees, donation of previously hoarded vaccines, loans that will be reimbursed and guarantees to private investors are also accounted as Official Development Assistance.

Hidden costs of unfair trade: Investors-State Dispute Settlements are costly and chill progressive policies; subsidies benefit wealthy countries, and intellectual property rules burden health budgets.

Investment doesn't flow to where it is needed. Foreign direct investment (FDI) is highly concentrated in a few countries such, as China, India, Brazil, and Mexico. Sub-Saharan Africa gets very little FDI and much of it is for mergers and acquisitions that don't add to productive capacity and the inflow of funds through new FDI is often exceeded by an outflow of funds as profit remittances on existing FDI, royalt

Tax havens: Countries are on course to lose US$5 trillion in tax to transnational corporations and wealthy individuals using fiscal havens to underpay tax over the next 10 years, warns the State of Tax Justice 2023. These future losses of public money would be equivalent to a year of worldwide spending on public health.

Rich and untaxed: Wealthy individuals account for one third of the half a trillion dollars lost to offshore tax abuse. Lower income countries lose $47 billion a year, equivalent to half of their public health budgets. To avert these losses, African countries promote a UN tax convention.

Small business carries the burden. Globally, the actual corporate tax rate has dropped from 23 per cent in 1975 to 17 percent in 2019. On top, corporations shift profits and evade taxes. These losses of revenue result in cuts in public services, and in small businesses that generate most jobs forced into informality or not being able to compete, because they do pay their taxes.

Debt Slavery: Two out of three developing countries are critically indebted and the global rise in interest rates makes their situation worse. Private investors (including pension and investment funds) now hold over 60% of the total public external debt of the global South. The US asset manager BlackRock is the largest creditor of many countries.

Illicit financial flows: The largest channel for IFFs is trade, where mispricing of transactions with the help of tax havens and banking secrecy undermines the tax and domestic resource mobilization ability of developing countries. Transnational corporations and wealthy domestic elites use secrecy jurisdictions, to transfer billions out with the complicity of financial institutions, accounting firms, lawyers and financial centres.

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