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Can the G20 Summit 2013 Deliver?

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The core objectives of the G20 Summit, scheduled for September 2013, are stated to be sustainable inclusive and balanced growth and job creation around the world. There is a need for G20 Countries to first evolve and adopt a composite tool – Growth, Equity, Conflict and Sustainability (GECS) Audit – that could enable an integrated measurement of growth, equality, sustainability and potentiality for conflict generation of growth initiatives. Radical reform of international financial architecture would also be required to make available credit to promote small and micro-enterprises. Finally, global tax reforms must be debated to dismantle tax havens and prevent tax avoidance.

MazherHussain (*mazherhussain11@gmail.com*) is Executive Director, Confederation of Voluntary Agencies (COVA) and is Director, State Bank of Hyderabad. Views expressed are personal.

The G20 Summits, which comprise the largest economies of the world, traditionally focus on addressing major challenges to the global economy. The Russian Presidency's objectives for the G20 Summit 2013 to be held in Saint Petersburg in September 2013 aim to develop a "set of measures aimed at boosting sustainable, inclusive and balanced growth and jobs creation around the world" (See G20 official website).

The eight key areas on which deliberations at the summit will focus are: Framework for strong, sustainable and balanced growth; Jobs and employment; Energy sustainability; Development for all; International financial architecture reform; Enhancing multilateral trade; Strengthening financial regulation and fighting corruption.

It is important to note that the G20 Summit is being held at a time when economic disparities all over the world are on the increase – rising unemployment, unsustainable development, displacement and deprivation induced by development, large-scale tax evasion and unfair trade practices. The world never had neither so much wealth nor so many deprived or disgruntled people as we have today.

The four key factors responsible for this growing inequality and unsustainable development in the world seems to be a growth pattern that is paradoxically leading to greater inequality; a mindset that is increasingly treating nature as a personal asset and not as a common resource; the inability of the poor to access capital and finally the emergence of a world order mired in corruption and tax frauds.

Growth-Inequality Paradox

Economists and governments are privileging growth over equality. The general presumption seems to be that growth would automatically lead to equality as greater generation of wealth would give everyone a bigger share. But records show that higher growth need not necessarily lead to greater equality. India provides a classic example of this paradox. During 2007 to 2012 when India had an average GDP growth of 7.9% – the best growth rate in the world next only to China – India's ranking on the Human Development Index (HDI) slid from 127 in 2005 to 134 in 2009, even as growth rates were high, touching 9%. During the same time, for the first time in history, four Indians joined the list of ten richest persons in the world, but in the same year, three out of every ten poorest persons in the world were also Indians.

This seems to happen because the governments are focused only on estimation of GDP and do not factor in issues of equality and human development while assessing growth – despite the availability of measures like the Gini Coefficient, HDI, etc. As a result, no concurrent correctives can be formulated or operationalized when there is an increase in inequality or deterioration in the services available to people.

Unsustainable, Exclusivist Development

Natural resources are being exploited in an unprecedented, unsustainable manner due to the overarching craving for rapid economic growth. Planet earth is being treated as an exclusive asset of the present generation and not as a trust that has to be protected and replenished with cautious use. Despite the great progress made by man, it is unbelievable and unfortunate that no serious efforts are being made to develop appropriate tools to assess and regulate the exploitation of natural resources.

Finally, while economic growth is enriching some sections of society, a vast majority of people are not only getting excluded from the benefits of this growth, but are actually facing displacement, deprivations and increasing destitution as a result of the pattern of growth that is being pursued leading to ever increasing social conflicts that are degenerating into armed violence.

As conflicts due to displacement or exclusion from benefits of development initiatives arise and manifest when the projects are completed or even in advanced stages of implementation, it is difficult to make the required modifications and the conflicts become intractable, leaving little scope for redressal. Hence what is urgently required is the development of a Conflict Assessment Audit of all development initiatives and projects before their implementation. This will enable the determination of any debilitating displacements or exclusions that projects might generate, allowing the incorporation of appropriate corrective mechanisms and features in the design of development projects to ensure minimum adverse impact on stakeholders as well as provision of an appropriate share in the benefits to all concerned.

Growth, Equity, Conflict and Sustainability (GECS) Audit

If we want a growth that contributes to equality, that is sustainable and does not result in conflicts, then it will be inappropriate to consider GDP as a sufficient measure for development (as is the current practice), but it will be necessary to simultaneously employ tools like or similar to the Gini Coefficient and HDI that enable measurement of inequality and indicate the level and quality of services available to all. Further, it will also be imperative to evolve parameters for the development of a Matrix for Conflicts and Sustainability Assessment that can be utilised to ascertain if the trajectory of growth being pursued is sustainable and can mitigate existing conflicts rather than contribute to their proliferation.

But all these five aspects seem to be intricately interlinked to each other: growth, sustainability, equality in incomes, access to basic services and conflict. As all these five are interlinked, disparate tools for their measurement will not be able to provide a correct picture of their trajectories nor provide an understanding of their collective dynamic to enable appropriate regulation for desired results. It seems like the space-time continuum of Einstein. You can measure both space and time separately, but you cannot really understand the phenomenon and resolve many seemingly intractable issues of physics till you have a framework where you can measure them both together.

Hence in order to have a growth that is sustainable, equitable and contributes to promotion of greater peace, it seems necessary to evolve and adopt a "composite tool" that could comprise essential elements to measure economic growth, income inequity, social development, conflict assessment and a sustainable development matrix. This Composite Tool could be designated as Growth, Equity, Conflict and Sustainability Audit.

As the most powerful political-economic formation in the world today, with the required expertise and resources, the G20 is eminently suited for the development of an appropriate framework and parameters for a GECS Audit that could indeed give a composite measure of holistic development covering growth, equity, conflict mitigation and sustainability. Unless such a composite tool is developed, any talk of inclusive or sustainable growth would be meaningless and would be just a platitude.

Growth-Unemployment Paradox

One of the core objectives of the G20 Summit 2013 is creation of jobs around the world to beat recession and turn economies around. The tacit understanding in the current economic philosophy is that businesses and corporations are the prime job creators and people should be given appropriate training to become workers and employees. However, facts show that technological innovations, even when industry and service sector grow in a healthy manner, employ less and less people. With ever-growing populations and limits to employment opportunities in businesses – both in national and multinational corporations – unemployment is bound to grow, resulting in a variety of social problems. The only way to create adequate employment opportunities for our teeming billions seems to be through the promotion of micro-entrepreneurs instead of just depending on the formal corporate model.

Micro-Entrepreneurs: The Requirements

There seem to be just three simple requirements that could enable the emergence of successful micro-entrepreneurs. First, identification of candidates from the skill training programs with potential for entrepreneurship and orienting them to basic principles of business management through supplementary courses. Enabling their access to bank loans to start business and finally establish joint mechanisms using internet and modern technology to facilitate in marketing and delivery of their products to a larger, and possibly, global clientele at very low costs.

With these supports, the micro-entrepreneurs will not only employ themselves but also some of their batch mates and others through their ventures to contribute to reduction in unemployment and increase in economic growth.

All of this could be easily possible for all the G20 countries with appropriate changes in the prevailing international business practices and appropriate financial-inclusion initiatives.

Financial Inclusion

All governments and banks the world over are talking of financial inclusion. But unfortunately, financial inclusion mostly seems to mean only opening bank accounts and no serious efforts are underway to also ensure that common people get access to bank credit.

The poor, the salaried class and the lower-middle class put their money in banks, which constitutes over 60% to 65% of the deposits in the banking system, whereas government deposits are around 15% to 20%. The rich, the domestic corporates, the multinationals and other businesses make up hardly 20% of the deposits in banks, as they invest their money in businesses. However, over 80% of loans given by banks are to the business sector, the rich and the middle classes (who benefit even from some portions of priority sector allocations obtained in the name of medium ventures and housing loans). The lower-middle class and the poor self-employed, who could easily constitute over 75% of the population, and operate in the category of micro and small enterprises are unable to access even 10% of the bank loans and are exposed to the mercy of loan sharks even for their very rudimentary business needs and are unable to grow and prosper due to the very exorbitant interest rates charged.

Pro-Rich Attitude and Systems

There is reluctance on the part of bankers to lend to the poor for two reasons: (i) General, but largely misplaced perception that the poor default on loans and (ii) that the processing time and effort for small loans are also almost the same as medium and large loans and bankers feel it easier to give larger loans and achieve their targets.

While the general understanding for financial inclusion seems to be limited only to educating people on accessing banking facilities, the real requirement is to bring about an attitudinal change amongst bankers, especially at the branch level, to give loans without bias to lower sections of society for small business ventures.

Further, the entire banking system seems to be structured to serve big business and corporate sector that prefer monthly or quarterly repayment schedules. However petty and small businesses with small margins operate on a daily basis and for them payments of monthly instalments become difficult and could lead to defaults. Hence, new financial products suitable to small entrepreneur, based on daily recovery rather than monthly payments will have to be explored and introduced. With existing internet and mobile technologies, it should be possible to evolve mechanisms to make deposits in banks on a daily basis through mobile cash cards without visiting banks and thus reducing daily transaction time and costs.

Even the statement issued by the Finance Ministers and Governors of Central Banks of the G20 Countries on 20 July 2013 at St Petersburg acknowledges that "the SME finance gap remains large worldwide" (See document here). It further states that, "We reiterate the importance of long-term financing for investment, including in infrastructure and SMEs, for sustainable growth and job creation".

A genuine international financial architecture reform would require that the G20 should take appropriate measures to restructure banks as social institutions that would mitigate inequality by making credit available to all, especially to SMEs, and do not operate as purely commercial machines that exclude the poor and worsen inequality.

International Tax Reforms

Despite talk of global recession, economies are not failing as a whole. Indeed people and governments are going bankrupt, but corporates and multinationals are amassing wealth through a variety of stratagem, including unfair business practices, corruption and creation of a global network of tax havens.

The statement of the Finance Ministers and Central Bank Governors of G20 Countries issued on 20 July 2013 admits that "Ensuring that all taxpayers pay their fair share of taxes is a high priority in the context of fiscal sustainability, promoting growth, and the needs of developing countries to build capacity for financing development. Tax avoidance, harmful practices and aggressive tax planning have to be tackled. The spread of the digital economy also poses challenges for international taxation". It goes on to further add that "Profits should be taxed where functions driving the profits are performed and where value is created. In order to minimize BEPS (base erosion and profit shifting), we call on member countries to examine how our own domestic laws contribute to BEPS and to ensure that international and our own tax rules do not allow or encourage multinational enterprises to reduce overall taxes paid by artificially shifting profits to low-tax jurisdictions".

Indeed there is an urgent and pressing need to review and revise international tax laws that were formulated around World War I when digital and multinational economies were virtually non-existent and prevent multinationals from evading taxes causing great financial loss, especially to poor and developing countries. But this cannot happen without plugging all complex and sophisticated loopholes that facilitate tax evasion and unless all tax havens around the globe are restricted.

The Challenge

This is indeed a very tall order and may be beyond the functional ambit of G20 and the present-day governments as most would find it difficult to pass laws against the interests of corporate lobbies and other vested interests that contribute to their election campaign finances. Hence, restructuring international financial architecture and reforming global tax laws may not depend just on the G20 leaders but could also require bringing about a radical transformation in the attitude of multinationals, whose focus, world view and philosophy seems to be profits generally—without regard to anything else.

Hence, we are not to deal only with G20 but also the Fortune 500 for any meaningful transformations in the world order that could ensure a "sustainable, inclusive and balanced growth"!

Comments