215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

Memo to Reporters

June 25, 2010

Contact: Lori Wallach (202) 441-7369
Bryan Buchanan (919) 673-8996

G-20 Summit: European Document Highlights Conflict between G-20 Financial Reregulation and WTO; So, Will Leaders Again Call for Completion of Doha Round WTO Expansion?

This week, G-20 leaders will again agree that new regulation of financial services is necessary to counter the crisis and avoid future meltdowns. They may even agree to the plan for a financial speculators tax being pushed by German Chancellor Angela Merkel and French President Nikolas Sarkozy. **The key question is whether they will repeat the mistake of the September 2009 summit by again calling for completion of the World Trade Organization (WTO) Doha Round, *which includes further financial service deregulation*** (http://www.citizen.org/pressroom/pressroomredirect.cfm?ID=2969)**.**

The conflict between the WTO's *existing* financial service deregulation requirements and the G-20 reregulation agenda was recently spotlighted thanks to a European Commission paper. The paper noted how WTO constraints on capital management polices could impair countries' ability to guarantee financial stability through transaction or speculation taxes:

> "the compatibility of such a levy with Article XI of the General Agreement on Trade in Services (GATS), which provides that WTO Members cannot apply any restrictions on international transfer and payments for current transactions relating to their specific commitments, would have to be further assessed. As the EU has taken specific commitments relating to financial transactions, including lending, deposits, securities and derivatives trading and these commitments relate to transactions with third countries, a currency transactions tax could constitute a breach of the EU's GATS obligations."[i]

And then, there are attacks against Germany's ban of naked short selling for being WTO-illegal and claims that aspects of the U.S. reregulation plan would violate American WTO obligations. And many analysts have raised other concerns about this conflict (http://www.citizen.org/documents/Memo%20-%20Unanswered%20questions%20memo%20for%20Geneva.pdf).

Not that any of this should have been news. The conflict between financial reregulation and WTO rules was highlighted in the 2009 report of the United Nations Commission of Experts on Reforms of the International Monetary and Financial System. The commission was chaired by Nobel Prize winning economist Joseph Stiglitz, and it included a host of distinguished academics, including former finance ministers and central bank heads from around the world:

> "The framework for financial market liberalization under the Financial Services Agreement of the General Agreement on Trade in Services (GATS) under the WTO and, even more, similar provisions in bilateral

trade agreements may restrict the ability of governments to change the regulatory structure in ways which support financial stability, economic growth, and the welfare of vulnerable consumers and investors…"[ii]

"…Agreements that restrict a country's ability to revise its regulatory regime – including not only domestic prudential but, crucially, capital account regulations – obviously have to be altered, in light of what has been learned about deficiencies in this crisis. In particular, there is concern that existing agreements under the WTO's Financial Services Agreement might, were they enforced, impede countries from revising their regulatory structures in ways that would promote growth, equity, and stability."[iii]

So, given the problems with the existing WTO rules covering the financial sectors, it is especially perverse that each of the last G-20 Communiqués has called for completion of the Doha Round. That is a long-stalled WTO expansion negotiation started in 2001 that includes as one of its main elements the pre-crisis preoccupation of *more* financial deregulation (http://www.citizen.org/documents/DohaFactSheetOct2009.pdf). Rather, G-20 countries should be calling to fix the existing WTO rules (http://www.citizen.org/documents/IntroductionToWTODeregulation.pdf).

And, certainly the G-20 leaders should not refrain from implementing important measures to stabilize the global economy because doing so may conflict with outdated, pre-crisis WTO rules.

A financial speculation tax is an idea whose time has come, and it's time for the U.S. Treasury Department to join the emerging global consensus supporting a tax on speculation.

A speculation tax – a modest fee on each stock, bond or other financial instrument trade – would have enormous benefits. It would slow the dangerous churning of stocks and financial instruments on Wall Street, and vitally complement efforts to rein in Wall Street via regulation. It would raise very substantial revenues. A quarter-percent tax on stock trades, and a commensurate rate tax on other instruments, could raise more than $100 billion a year in the United States alone. And it would be extremely progressive, since it is the rich who own most financial instruments and trade them the most.

There is no question as to the feasibility of such a tax, with the IMF recently concluding that it is entirely possible.

With growing interest in the United States in taxing dangerous speculation, the U.S. Treasury Department's rationale for failing to support a speculation tax is that it would require international coordination. This rationale does not stand up to scrutiny. The United Kingdom currently maintains a stock trading tax, and has been gaining, not losing, business over the past decade. More starkly, leading industrial powers are now waiting for the United States to join the global consensus in favor of a financial speculation tax. Chancellor Merkel and President Sarkozy have announced they will lead a European Union effort at the G-20 to win agreement on a financial speculation tax. U.S. Treasury Secretary Tim Geithner – and President Obama – should welcome and join this effort.

Then, they should join together to call for a review of the existing WTO rules on financial services and the Doha Round agenda. To date, U.S. and European Union representatives at WTO have been blocking demands for such a review at WTO forwarded by various developing countries, including South Africa, Ecuador, India and Argentina.

---

[i] European Commission staff working document, "Innovative financing at a global level," SEC(2010) 409 final, April 1, 2010. Available at: http://ec.europa.eu/economy_finance/articles/international/2010-04-06-global_innovative_financing_en.htm

[ii] Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, September 2009 Report at 82. Available at: http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

[iii] Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, September 2009 Report, at 38-39. Available at: http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf., at 104-105.