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Governance, Economy, Management for Economy of Life

Review by Betsan Martin

30 October 2019

Governance, Economy, Management for Economy of Life, 18-30 August 2019, Jakarta, Indonesia.
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Response Trust
and
Convenor, Methodist Public Issues Aotearoa New Zealand.

The Governance, Economy, Management (GEM) School is resourcing the global community of the World Council of Churches for an Economy of Life through an annual course for twenty participants.

This year the course was in a small hotel in the hills outside of Jakarta - a beautiful setting with pool and gardens and simple food – a perfect venue for the group from many different countries – Palestine, Zimbabwe, Tanzania, Colombia, Korea, Philippines, Indonesia…. to become friends and work together.

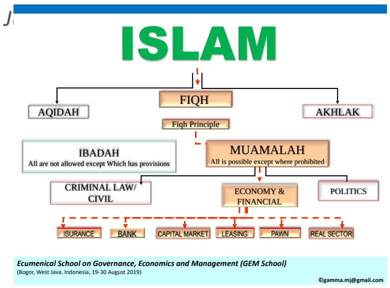
Everyone gave a short profile of our country with a focus on justice issues. For example Marcelle Zoughbi from Bethlehem in Palestine gave us first-hand accounts of the effects of the Israeli occupation – which is largely driven by Israel securing access to water. It is accompanied by high rates of imprisonment of Palestinian men, detainment and torture of students and by regulations designed to stifle Palestinian movement – Marcelle had to pay a high tax to leave Palestine, and then to re-enter. Life for Palestinians is described as living in an open-air prison.

GEM Group - Thursday in Black

The GEM course was concerned with understanding the systems of destruction embedded in the neo-liberal systems, and also with alternatives for a globalized world for people and earth. There was an interplay in our work between globalized financial world and our contexts.

Presentations on economy for life covered the global financial systems built on growth and debt and flows of finance across borders, the destabilizing impact of inequality, decolonization, the global financial crisis and Malaysia's escape from it, ecological economics, feminist economics, neoliberal systems and the role of IMF, World Bank, and transnational corporates

We heard about the values system in Islamic finance based on Islamic law and distinctions between profit, non-profit and giving; and also much about local initiatives in Indonesia.
Not all are covered in this paper.



Resource people with expertise in these topics gave in-depth talks followed by discussions which continued over meals and into the evening.

We were introduced to the New Financial system for an Eco-Economic Architecture (NIFEA, see p.11), and the Zacchaeus campaign linked to the International Decade for People of African Descent, 2015–2024, calling for the establishment of an Enslavement Reparation Fund overseen by a Global Commission for Reparatory Justice. It is a joint venture of the World Council of Churches (WCC), Council for World Mission (CWM) and the World Communion of Reformed Churches (WCRC).

Development of an Economy of Life
You might be surprised to see images of pollution and hunger in New Zealand alongside images pf a community of people living on railway tracks in Jakarta (below). Yet they are two faces of a system which discounts colonialism, doesn't value ecological health of waters and disregards poverty. These are externalities in an economy of market driven growth and productivity.

We visited a community of people living on railway tracks in Jakarta. The only shelter was a tarpaulin and when a train came through everyone just moved aside off the tracks – children babies, older people who have been living there for 40 years.

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Living on a railway line in Jakarta – the only shelter a tarpaulin and some trees GEM school visit August 2019

Lake Horowhenua dying from nitrates, sewage, farm pollution Courtesy Jonathan West

Auckland City Mission Helen Robinson at the food bank

Background
Several pathways converge in this collaboration of global ecumenical organizations embarking on the serious work of economy, or koinonia. Economy for Life is an alternative to the neoliberal rationale of market driven productivity, and provides for healthy communities living respectfully with all forms of life and within earth's renewable capacity.

In 2014 WCC, the World Communion of Reformed Churches, the Lutheran World Federation and the Council for World Mission launched an ecumenical action plan, to implement the 2012 São Paulo Statement on financial transformation and a new global financial eco architecture. The NIFEA plan and the GEM school are part of its implementation, led by Athena Peralta and Isabelle Phiri WCC; Peter Cruchley CWM, and Philip Peacock WCRC.

GEM Leaders Philip Peacock, Athena Peralta, Isabel Phiri, Peter Cruchley

A venture into new horizons at the GEM School was on Artificial Intelligence and faith.

Artificial Intelligence and Artificial Super Intelligence

Professor Seong-Won Park from Gyeongan Theological Graduate University, South Korea spoke of the US influence in Korea, under the guise of peace and security. He reflected on the world that faces catastrophic risk of climate change, nuclear war, ecological collapse, pandemics, migration, water and food shortages. This is a world where humans still control machines. It is a world of broken relationships. Neoliberalism is an economy with no social responsibility.

Professor Seong-Won Park

With this legacy, we are facing the 4th industrial revolution where machines will control humans. Until now, humans used nature for our needs, and it is now becoming possible to edit and create nature. We can edit genes to determine the sex of a child and emotions can be engineered. We can even create nature from nothing. The world of Artificial Super Intelligence is about to dawn – by 2045.

Artificial intelligence will have 170,000 times the capacity of human learning, and it will take learning and progress through experience, with free will far beyond the capacity of human learning. If such super intelligence is used malignantly it will spell destruction. More beneficially, it could solve climate change and poverty. Some say humans are creating the possibility of bringing God into the world in the form of a superhuman intelligence.[1]

This is deeply disturbing to all Christian orthodoxy including to the relevance of the creation stories to this incomprehensible future. Are our theologians considering the anxiety that Artificial Intelligence brings to us – and the disturbing of beliefs about God. Are we preparing for ethics for Artificial Intelligence and considering our human responsibility for creating robots which have an ethics of responsibility programmed in to them? If we consider the deep wisdom of the bible we find the hope of coexistence, and the common good of all of life and the price to pay for breaking the rules of interdependence. In order to live well with artificial Intelligence humans will have to become 'mutually beneficial' persons, determining what I need in relation to the needs of others.

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[1] Jeong Gyoung Ho (2019) 'The Deep Theological and the Deep Ethical Task of the Korean Church in the age of Deep Meum and Deep Learning.' In *AI's DeepMind and DeepLearning vs. Human's Deep Maeum and Deep Wisdom*. Pp. 93-98. Gyeongan Theological Graduate University.

Tax and Social Values

The illars of the global economy are the export orientation and foreign investment. Mae Buenaventura, Senior Policy Officer of the Asian Peoples' Movement on Debt and Development in the Philippines opened the tax discussion with the statement 'The tax code of a country is a statement of what its values are.' Tax has capacity to raise funds for social services and this is being undermined because of corporate tax avoidance.

Mae spoke of the gender bias in taxation and of corporate tax avoidance. Other presenters spoke of tax injustice to restrict freedom and human rights. Where women are not in paid employment and therefore don't pay tax they may feel unentitled to public goods. In other contexts women in low paid work may pay disproportionate tax due to gender biases in poverty and regressive taxation. GST (or VAT) is a regressive tax because it is applied to everyone at same rate. Under the social contract – paying tax is the means to providing roads, water, legal systems and other public services.

Tax is a communal lifeblood of nations, a source of revenue backed by legal enforcement. Often tax codes have colonial legacies or other oppressive intentions.

Tax is supposed to be proportionate and based on ability to pay; but corporations go around payment of tax. Look at public spending- in Philippines it is used for roads and airports, not hospitals. Progressive tax is the most ethical on income that is both personal and corporate. IMF advises countries to introduce GST taxes; this is connected to loan conditions from IMF. Some countries have designed GST in less discriminatory way so that purchases which benefit the household may be free of GST- such as for fruit and vegetables. Another design is to remove excise tax on fuel for low income people.

One of the project groups was on tax Justice, and three country profiles show values which reflect power and economic interests.

Palestinians are paying taxes for things they are not receiving services for. For example:

- Palestinians pay exit tax, with payment required for each suitcase, car tax, Import Tax.
- Israel owes US$570 million tax to Palestine (The Palestine Tax Authorities collect tax and give it to Israel with the Israel expected to give back some of the proceeds, however, Israel is not returning the taxes.
- Israel is holding accounts for 63% of the Palestine Authority Budget.
- Israel collects tax on Palestinian exports and imports. A tax revenue of US$160 million dollars a month's is collected through taxes.
- Israel taxes 55% for Palestine income of 8000 JOD (Dinar), compared to Israeli tax of 48% for an Income of 16,000 JOD, double the amount. Thus there is discrimination and injustice. (Marcelle Zoughbi)

In Zimbabwe the tax systems shows a profile of corporate evasion and burden on low income people

- Tax revenue constitutes more than 95% of the public finances, thus the Government relies on tax revenues rather than non-tax revenues,
- There is no transparency and accountability regarding the tax contributions of big corporate as well as the incentives they receive for retained/investments,
- A new tax, the 2% Intermediated Money Transfer Tax, 2018 introduced double taxation and punitive taxes on incomes even below the Poverty Datum Line, and severally taxes the same income as it is transacted. This is in addition to VAT, PAYE, Toll gate fees, AIDS Levy, NSSA and user charges among many others.
- Zimbabwe is losing nearly US$800 million annually through illicit financial flows, with the mining sector contributing over 90% of IFFs (Admire Mutizwa)

A profile of New Zealand Taxation is set in a context of having a current account deficit which is financed by financial 'inflows', or borrowing. Bank borrowing from abroad has increased substantially, and makes up a large proportion of both net and gross external exposures. NZ is also in the top third of countries on inequality measures.

- Does not have a Capital Gains Tax
- Does not have tax on financial transactions, nor requirement to Pay GST on financial services
- 'Correctional taxes include high costs on tobacco
- Need for transparency in the interface of domestic taxation and cross border flows
- No pollution taxes – Taxes could be applied to both urban and rural source of pollution from nitrogen, phosphorus, sediment, pathogens (e-coli). A parallel measure could be to tax 'inputs' such as fertilizers which are fossil fuel intensive to produce and which negatively impact land and waterways. A water abstraction tax could be used to ration the amount of water taken from springs and aquifers.
- NZ introduced an Emissions Trading Scheme in 2008. The scheme excludes agriculture, and therefore discounts 47% of our emissions. The price on Carbon has remained consistently low (under $25 per CO2 equivalent unit) so has failed to curb emissions.
- NZ has progressive tax system with 10% tax on lowest incomes (up to US $13,00 approx.), and 33% on highest income (above US$65,000 (approx.). GST is paid on all goods and services for which there is no relief for low income people (Betsan Martin)

Global Systems and the Global Financial Crisis - ASEAN

In the context of the globalized labour market Rosaria Guzman focussed in on abusive global systems: privatization of public utilities and social services, the phenomenon of rent seeking by which taxes paid by private corporates are included in their expense accounts so it can reclaim these costs.

Global inequality is directly linked to the accumulation of wealth to the 1 percent and to corporate super profits. Graphs show the long term fall in the labour share in income.

Resource people: Rosaria Guzman, Priya Lukka, Marie-Aimée Tourres

Speaking of the Global Financial Crisis (GFC) in the Asian context Marie-Aimeé Tourres took us through the particular impact in Asia and the conditions which led to more regional integration.

Asia was exposed to the GFC because of being highly dependent on foreign money investments, and loans but couldn't get their loans reimbursed in the short term. Short term money with long term gain is not possible. Indonesia had overborrowed money and invested in everything possible, with good returns. But the GFC meant loans could not be repaid and debt choked the economy.

Asian countries, including Indonesia had to go to the IMF for emergency finance, a last resort decision because of having no choice. Interestingly Malaysia was the only country that said no to going to the IMF (See Marie-Aimeé Tourres (2003) The Tragedy that Did Not Happen) .

Indonesia went to IMF, but became the worst hit economically socially, financially and politically The IMF came to restore confidence but their policies were a failure. The IMF has a set package – cut subsidies, do financial reform, close private banks, raise interest rates. These policies led to a rush to withdraw money, which meant that banks have no money to lend. But Soekarno and his allies revelled in the money from IMF and nothing was done to stop the corruption. Then El Nino hit

Indonesia with drought and forest fires. Social unrest with Soekarno brought political uncertainty and more adverse conditions for foreign investment. The IMF came with second package including cutting subsidies , which led to further social unrest. The IMF agreed to restructure to address social unrest and Soekarno was reelected.

This political situation led to a further loss of investor confidence and in May 1998 the devaluation of the currency caused riots. In Indonesia and Malaysia there is a perception that the Chinese have the wealth and racism erupted. Soekarno stepped down and Jusuf Habibe became new President in 1998. Investors started to have confidence again, some bonds were issued because global environment was in recovery. There as a restructuring of the banking sector (including in Malaysia)

Following the 1990's shocks Asian countries decided not to go to the IMF and proposed building an economic strategy of regional integration. The first Asian Integration initiative failed because the leaders, Malaysia, Indonesia, Thailand, forgot to include China, which then blocked the proposal! Later Chiang Mai initiative in 2009 was led by the three biggest economies ASEAN+3 Korea, Japan, China. They decided not to borrow any money from West; instead they agreed to establish a fund of $US 120b – 80% contributed by the big three. However this was not enough money for balance of payment issues and with the pressure of the 'western' financial crisis Singapore and Japan went to West, and Indonesia went to World Bank. ASEAN+3 then doubled the fund to $240b – with multilateral borrowing up to 30%. But 'you can never get rid of IMF'! and the IMF imposed conditions on balance of Indonesia's debt. If a country goes to the IMF to borrow for infrastructure they get trapped in the IMF conditions. Indonesia, and Asian countries need to attract foreign investors but they are facing the costs of terrible exposure to environmental disasters so are often forced to go the IMF to borrow to rebuild infrastructure.

Economies such as Indonesia need access to long term money , such as through bonds. They are working towards standing on their own and efforts for more regional integration continue, such as through an Asian Bond market. Now, twenty years on Indonesia has more protections against the shocks of crisis with strengthening democracy and the fight against corruption. Asia is in better shape because of deciding not to be dependent on IMF and US dollar.

ABC of the Financialization of the World

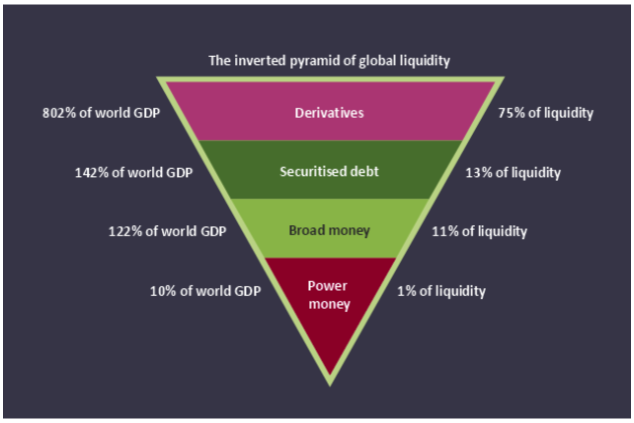
Marie-Aimeé Tourres led the topic of financialization, and began with the view that *Finance is good*! it matches borrowers and lenders and enables money be available to do good things. Money allows people to become free of debt. Financialization is beneficial in developing countries – eg for remittances.

Marie-Aimeé Tourres's presenting on financialization

Abuse happens if finance leads to the problems of debt being controlled by external interests. When finance plays a role in productive services, eg education it is beneficial. Problems start when money takes over and where the rich get increasing influence over policies – multinationals may have more power than states. Severe imbalance can disturb social affairs.

In the situation today of the stock market entering the economy, and of global financial flows, how much is this non-cash money? GDP is what we produce in trade and services but it is only 10 % of worlds wealth. Finance that is not linked to what we are producing introduces the speculative aspects of finance. These derivatives used to use money around the world . Liquidity is the non-cash market and represents 800% GDP.

An inverted pyramid shows the structure of the financialized system. At the base, cash is based on only 10% worlds GDP. Money that is available as access to loans is 11%. Technology is 13% of the market. At the top of the pyramid is 7 finance which is used to speculate. And represents 75% of liquidity – this is referred to as illicit flow, and is outside the regulated banking system.



Technology has helped – new things are linked to banks and liquidity. Now, computers themselves can buy and sell on stock market. Illicit flow is not part of the banking system.

Bitcoins is virtual money which contributes to liquidity – they are not part of official cash economy. Bitcoins are not recognized by the central bank and disturbing the system. Virtual money not under any regulation.

On the other hand, digital money is very official. Money in the form of coins, loans and borrowing is counted by the central bank and represents 95% of money world wide. In China and Kenya there is more electronic money circulating than material money and it is recognized by the central bank. Do we need cash? India and Africa prefer epayments (because of protection against theft).

With epayments there is no cash or charge. Epayments are not a charge. Digital currency is faster than cash. By 2025 100% of financial transaction will be digital payments with more advanced take up in developing countries.

In the payments ecosystem there are unregulated capital flows because technology is faster than the development of the legal system to regulate – so people take advantage of no regulation. Epayment and bitcoins are still very small in scale in comparison with real money. But the challenge is the disconnection between the real world and the subjugation or distortion of it.

In the inverted pyramid we have control by top level with debt being used to speculate on global financial markets. Financialization of debt is a problem. We criticize GDP – but is a measure of something which exists.

Who owns wealth? Who owns debt? The total wealth of world is 80 Trillion. Who owns it? China, US and Japan. Japan has huge debt of 300% of its GDP, but people who own debt are only Japanese. Debt for African countries is in US dollars and it is owned by people external to the country.

Regulation

Regulation is needed to control financialization of debt and speculation based on debt with borrowed finance, but this can be unstable and change with politics. After the 1930's depression the US enacted the Dodd-Frank Act to save taxpayer money. This and the Consumer Financial Protection regulations have both been withdrawn by Trump. (See movie *Capital*).

Shadow banking occurs when nonfinancial institution give loans to people who can't get them any where else; but then borrowers can't pay. This has increased by 75& since the GFC in 2008. People are lending out side of the official banking system and is very dangerous. Majority of debt in China is from shadow banking. Canada also high.

There are few signs of the system changing. The recent Davos meeting focused on growth rather than distribution, and on creating a favourable environment for more financialization. There was no call for better regulation.

Banking regulation requires banks to be either an investment bank or commercial bank. (After Asian crisis, Citibank was linked to US government and using money to invest).

But banking regulation is disappearing despite the lessons of history. In the depression 1930 people who were borrowing money (your money) were using it to invest, not to repay their loans. Commercial banks were also investing, even thought they are supposed to make investments only from interest. In this situation, if you want your money from the bank it is not there because it is invested.

Global Financial Crisis
The 2008 GFC was the result of many contributing factors over a long time. A main thread is that US investors did not have investment opportunities. Latin America was in crisis. There was caution about investing in Asia after their 1998 financial crisis, and Asia itself was not wanting US investment. US investors asked where can we invest?

One category of people who don't have access to credit is the poor people of the US. Banks played on the American dream of owning a home and were approached people with offer of loans, with promotional material circulated in Spanish, to reach the low income people of the American market. To get a loan they were told you don't have to show any income, nor have documentation, and we will give 100% of what need. Interest rates were low to start with, therefore people opted for flexible interest rates. (With fixed Interest, the rate of today will be applied for loan duration).

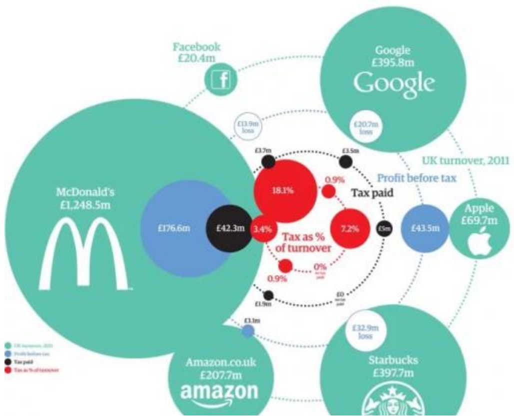
In 2006 people started to borrow on flexible interest. The amount of the mortgage debt went up to equivalent to US GDP – but the borrowers had no capacity to repay. The price of houses went up but their income didn't go up. The banks said there was no problem because of capital gain would enable them to repay when they sold. In the US (and NZ) system, the guarantee to the bank is your house (in some countries bank is not guarantor). But if the house price goes down the borrower is trapped in having to sell at $300,000 but the bank wants $500,000.

After the boom in 2006, prices of the dream house went down and Interest rates went up. Banks had less credit to give loans. In the US banks sold loans to a special institution – so as to avoid risk for the bank. Technology was used to create bonds based on debt, and people were told they would earn 8% interest. When people realized debt could never be repaid the stock market crashed. Then when they realized the bonds were empty they started to resell and overnight a rating agency said AAA bonds were worthless.

Entire system collapsed. The crime of the GFC was that Investor found nowhere to invest, except with the poor.

Protection against the risk of financial crisis requires reducing the power of multinationals and Investment in the real economy. Other mechanisms include tax on international flows, capital control, regional taxation.
We need to speed up a regulatory framework for cryptocurrency.
New ways of financing. Change power of lender – new lending partners, Tax on environmental activity, cybersecurity. Stop culture of greed.

Growth and Debt
Growth is driven by debt. The World Bank will lend to an open economy. It will thus facilitate the building of roads with toll fees that privatize farm to market roads and access to exports.



https://bellacaledonia.wordpress.com/2015/02/16/big-business-tax-and-the-tories/

Multinationals operate in developing countries. Financial flows cross borders and revenues are lost because of this flow. Globalization means we are part of a global value chain in which corporations take account of low wages and resources in 'developing' countries, and the lack of environmental regulation and protective legislation.

They operate in countries such as Indonesia, there without providing social protection and without environmental safeguards and responsibility.

Debt is both legal and illegitimate! Corporates exploit loopholes in the law – KPMG, Deloitte, Earnest Young, Price Waterhouse Cooper, the main accountancy law firms which navigate loopholes to minimize tax payments. This leads to the loss of corporate income revenue. Now 10% world's GDP is in tax havens.

While they operate within the law, their activities cannot stand up public scrutiny: the Philippines had $3.4 m revenue loss from corporate avoidance. Apple paid no tax because declared loss. McDonalds paid approximately $1.2m

Ecological Economics

To balance all the analysis of global financial systems and neoliberal growth, Athena Peralta and Priya Lukka set out the framework of ecological economics as the most viable pathway to koinonia.

At the heart of corrective mechanisms of ecological economics is the imperative to stop discounting the future, and stop counting natural resource extraction as income… mining is an environmental cost. What we are not settled on is how to value nature – what is the value of a healthy forest or a lake with pristine water?

Robert Costanza has led the way to attributing economic value to nature through costing ecosystem services. The current model of growth is driven by debt and externalities whereas Ecological economics is about integrating all aspects of work and contributions to production, including the caring work of families and the effects of pollution. Cancelling debt of developing countries would free up resources for distributional purposes, and imposing a tax on carbon would provide revenue for investing in social welfare. Just transitions are part of a ecological economy, with Unions, Government, and Business collaborating to income support and training for changes to new work.

Athena Peralta and Priya Lukka

In this economy labour is for the reproduction of life, not capital. When our role in production is for capital, rather than for life we have objectified our existence. The market objectifies everything because it converts everything to objects of exchange and alienates us from relationship with each other and with nature.

Zaccheus Tax, Reparations and New International Financial Eco Architecture (NIFEA)

How to deal with contemporary inequality, ecocide and ecological debt?

The UNFCCC has developed Common and Differentiated Responsibility in recognition of the weight of responsibility on industrial countries for building resilience. The historical responsibility of industrial nations and of corporates which benefited from colonization needs to be addressed in recognition of harms to the climate and to financial systems. Highly indebted countries cannot borrow any more because of higher debt service costs.

Reparative justice challenges the development and growth paradigm.

Summary of Economy of Life Proposals

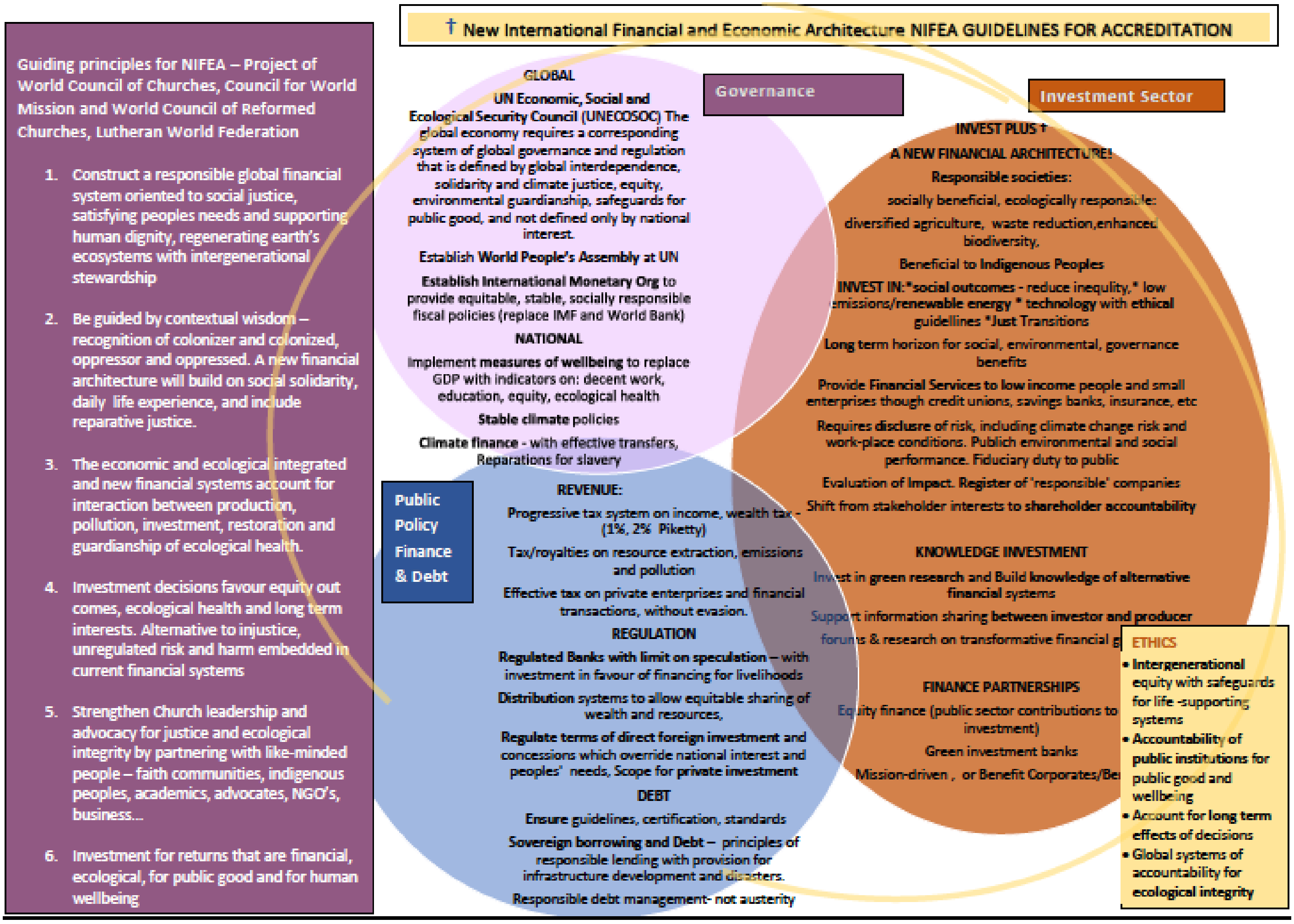
- Global Financial Architecture:
  Building new responsible financial systems with regulation with a global financial and economic architecture, with global governance, financial regulation, and responsible investment criteria (see diagram below)

- ***Tax***
  - Progressive wealth tax at global and national levels to curb concentration of wealth
  - Piketty – 1% tax on Euro 1-5 m, 2% on wealth above Euro 5m and inheritance tax.
  - Tax on resource extraction, and closing harmful mining.
  - Tax and gender – social media campaign to make taxes work for women.
  - Carbon taxes, particularly on big corporations and wealthy consumers, can help to restrain emissions and raise revenues for investment in renewable energy as well as for meeting the costs of climate change mitigation and adaptation and reparations for climate-related loss and damage in income-poor and vulnerable countries. Establishing a United Nations commission for tax cooperation is one possible way to build a fairer and more transparent system of corporate taxation

- Reparation – Zacchaeus Campaign
  The Zacchaeus campaign is strongly anchored in the legacy of empire and slavery and, through reparative justice takes on board proposal for reparations for the losses of slavery and land alienation and self-determination. We have to confront the historical amnesia that allows us to forget the social and economic price paid for colonial access to resources and advantages of development.

- Debt cancellation
  A measure to bring reparation and restoration to nations impoverished by the Trans-Atlantic Slave Trade and struggling with the impacts of runaway climate change. Debt cancellation would help to free up resources to address economic, social and ecological challenges facing the aforementioned nations that are often rooted in unjust economic conditions imposed by the colonizing nations since emancipation. Reparations are linked to climate justice too – with climate finance as a form of reparation for the exposure to climate change costs and losses of land, home, food sources – a debt that has been incurred externally.

DRAFT OUTLINE OF NEW INTERNATIONAL FINANCIAL and ECONONIC ARCHITECTURE



NIFEA graphic prepared by Betsan Martin