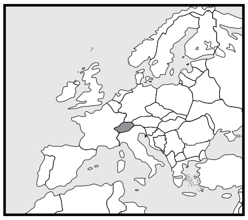
The need to control financial capital

BRUNO GURTNER[1]



The private sector must participate in preventing and resolving financial crises and must share its costs. New ways of restructuring international sovereign bonds must be realised. There is also a strong need for regulating debt standstill and for an orderly work out mechanism. Control of offshore financial centres should be extended to tax matters, and an international tax organisation should be established.

Domestic resources

Overall public expenditures rose strongly in the 1990s from 27% of Gross National Product in 1990 to nearly 32% at the end of the decade. The Confederation, the Cantons and the local communities ran up huge deficits during this decade. Public debt of the Confederation tripled between 1990 and 1999, reaching 25% of GNP (public debt at all three state levels was 50% of GNP at the end of 1999). There is strong political pressure to reduce these deficits, despite campaigns by right wing parties to reduce taxes. Social expenditures are at risk of being cut. With the decision of the Federal Council (central government) to pump nearly CHF 3 billion (USD 1.8 billion) into a new Swiss airline after the crash of Swissair, the Confederation will continue to run deficits. Due to these budgetary problems Switzerland did not raise Official Development Assistance to 0.4% of GNP by the end of the Millennium, as originally promised by the Swiss government (see section on ODA below).

The Organisation for Economic Cooperation and Development (OECD) criticised parts of the Swiss tax system, mainly the taxing of holding societies, as harmful practices. Switzerland is also under heavy pressure by the European Union, which will introduce a directive governing the taxation of savings income based on an automatic procedure of exchange of information between Member States. Important non-EU Member States are asked to introduce equivalent systems. The Swiss government and the Swiss banks reject such a proposal because it affects Swiss bank secrecy. Switzerland has offered only to extend its withholding tax on interest income and to share tax income with the EU. If Switzerland will introduce such an extended withholding tax in favour of the EU, this system should be extended to developing countries, lobbied the Swiss Coalition.

The fact is that the national laws offer many tax loopholes, and make a particular distinction between (illegal) tax fraud (*eg*, falsification of documents) and simple tax evasion. Although the latter is technically prosecuted, this is done only in the case of parties obligated to pay taxes in Switzerland. Experts criticise the fact that a big share of offshore moneys managed by the Swiss banks are not correctly taxed in their original countries. But Switzerland offers no legal assistance to other countries trying to prosecute tax evaders. This is not only a source of irritation to the EU but also a cause of huge losses in tax revenue to developing countries. Therefore the Swiss Coalition is fighting for a more coherent Swiss tax system and improved international juridical assistance in tax matters[2] .

Foreign trade

For the Swiss government, trade is the essential engine of economic growth, income generation and poverty reduction in developing countries. Switzerland consequently supports global trade liberalisation.

Switzerland also supports calls for better market access for developing countries' exports. The government offers to eliminate or reduce tariff peaks and tariff escalation for industrial products, a policy that is contested by some interest groups. As regards agricultural products, Switzerland offers to gradually open markets further while taking into account the non-commercial interests and multifunctionality linked to agricultural activities. Switzerland's General System of Preferences (GSP) gives duty-free access to all industrial goods and some agricultural products for Less Developed Countries. LDCs should be given step-by-step zero-tariffs and have no quotas on the remaining agricultural products.

Switzerland created the Swiss Import Promotion Programme in 1999 to assist developing countries in expanding their export capacities. The government also supports trade-related capacity-building programmes and teaches developing countries to participate more effectively in trade negotiations.

The Swiss Coalition is sceptical of the Swiss government's faith in trade liberalisation as the engine of economic growth. The Swiss Coalition lobbied very actively together with other organisations of civil society for a more coherent Swiss trade policy in the World Trade Organisation.[3]

External debt

In March 1991, Switzerland established, in response to political pressures by NGOs, its comprehensive debt-reduction programme. The Parliament approved an additional CHF 500 million (USD 300 million) for bilateral and multilateral measures. By that measure, Switzerland played a pioneering role at the international level. The Swiss Coalition managed the so-called "creative debt reduction programme" with counterpart funds that financed projects benefiting populations in indebted countries. These funds have been financed through Swiss debt cancellation while debtor governments paid a portion of the cancelled debt into these funds. Previously Swiss bilateral ODA was given in the form of grants. Switzerland contributed to multilateral debt reduction in several

1 Economist, Swiss Coalition of Development Organisations. Responsible for the programme on international financial institutions.

2 Swiss Coalition News, No. 27, June/July 2001, Berne. (www.swisscoalition.ch).

3 Swiss Coalition News, No. 28, October 2001, Berne (www.swisscoalition.ch).

developing countries before the Highly Indebted Poor Country (HIPC) Initiative was started. Switzerland also supported the HIPC Initiative from the very beginning. But today the government follows a very cautious line regarding the enhancement of the HIPC Initiative.

The Swiss debt reduction policy has been jointly evaluated by the government and the Swiss Coalition,[4] who believe that the HIPC Initiative does not offer a way out of the debt trap. Switzerland should therefore support the enhancement of the HIPC Initiative, contribute to formulating a follow-up initiative for ongoing, comprehensive debt relief and help develop a new policy among creditors to break the cycle of debt. Switzerland should also support the introduction of an international insolvency procedure for indebted countries, modelled on the American procedure of insolvency for governmental units that guarantees a local community the right to a minimum subsistence.

Private capital

More than 90% of Swiss Foreign Direct Investment (FDI) flows into other industrialised countries, but FDI in some large developing countries has risen steadily during the last decade. Swiss FDI in smaller countries is still minimal.

Figures of the Swiss National Bank (SNB, the Central Bank) remain unclear in several aspects.[5] While Swiss capital exports into newly industrialised countries (NIC's) of Asia and Latin America peaked in 1998 with CHF 6.9 billion (USD 4.2 billion), capital export flows into these countries have been reduced to CHF 1.5 billion (USD 900 million) in 2000.

With respect to other developing countries, the only relatively large investment flow is to big countries like China, India and Indonesia. Swiss FDI for all developing countries peaked in 1997 with CHF 1.8 billion (USD 1.1 billion). Since 1998 the statistics also include flows into Caribbean offshore financial centres; within the last three years they more than tripled from CHF 3.0 billion to CHF 9.3 billion.

SNB figures do not reveal what sectors within developing countries receive FDI. Generally the biggest Swiss investors are metals, machinery and chemicals among manufacturing industries, and finance and holding companies, banks, communication and insurance companies among services.

FDI's in Switzerland by developing countries are very small, only about CHF 1.1 billion or less than 3% of all FDI in Switzerland.

Statistics about portfolio investment are inadequate and do not show geographic differences. Poor statistics mask the importance of the financial sector in Switzerland.

The Swiss Coalition believes that private flows could and should make important contributions to international development financing. But the quality of financial flows is very important. Private flows should respect socially and environmentally responsible criteria. Harmful flows should be reduced and controlled, especially the highly volatile short-term and speculative capital flows. Crisis-prone international capital markets should be controlled and taxed.

International financial architecture

There were some improvements in international financial architecture, such as increased transparency, higher standards, better financial sector assessment and better surveillance of offshore financial centres.

But there are still no effective and binding rules for the involvement of the private financial sector in preventing and resolving financial crises. The private sector must share the costs of financial crises. New ways of restructuring international sovereign bonds must be realised. There is also a strong need for regulating debt standstill and for an orderly work out mechanism. Control of offshore financial centres should be extended to tax matters, and an international tax organisation should be established.

Official Development Assistance

The government never agreed to comply with the 0.7% goal, but it promised to reach 0.4% ODA by the end of the millennium. Economic weakness and severe budget restraints blocked further progress. After some years of significant rises in ODA, Switzerland contributed only 0.34% of its GNP in 2000. After strong lobbying from the Swiss Coalition, the Parliament now requires the Swiss government to raise ODA to 0.4% by 2010, but the budget for 2002 does not include any increase in ODA.

Efforts by the Swiss Coalition and other NGOs to raise the Swiss ODA could be furthered by international pressure such as a campaign to fulfil the Millennium Development Goals and increase ODA (the Brown Initiative).

The Swiss Coalition supports ideas for innovative sources of development financing such as the carbon tax, currency transaction taxes, and issuance of IMF Special Drawing Rights as well as measures to improve the quality of aid.

Gender dimensions

Swiss development policy decision makers, at least in project and programme work (both bilateral and multilateral), are generally aware of gender dimensions. More and more women have reached jobs with decision-making power. Private and official development assistance is generally assessed for gender impact. Private development organisations and the official Swiss Agency for Development and Cooperation have prepared principles of gender policy and are financing special programmes for women.

In areas such as trade and financial liberalisation, fiscal adjustment and privatisation, Switzerland generally is ready to design policies that minimise negative impacts on women, ethnic minorities or the environment. In light of this awareness, the pressing need now is for better impact assessment. ■

Swiss Coalition of Development Organisations
<bgurtner@swisscoalition.ch>

4 Swiss Coalition News, No. 26, March/April 2001, Berne (www.swisscoalition.ch). See also the website of the State Secretary of Foreign Economic Affaires, Seco: www.seco.admin.ch/seco/

5 Swiss National Bank, *Swiss Balance of Payments 2000*, Zurich 2001 (www.snb.ch).