How G20 finance decisions lead to global inequality

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During the Covid-19 pandemic, billions of people around the world have become poorer through loss of income while billionaires have become richer by speculating on global financial markets. The poorest countries are increasingly trapped in debt, whereas rich countries are creating and spending new money. How can this problem of increasing global financial inequality be solved?

Global finance in the hands of a few

By sidelining the United Nations, where all countries have a say about international problems and solutions, the **Group of Twenty (G20)** has become an exclusive group of wealthy countries that dominates decision making on global financial issues. G20 finance ministers and central bank governors meet quarterly behind closed doors. Their decisions have enormous influence on who wins and who loses on the global and national financial playing fields. Although G20 finance decisions greatly impact people's lives and urgent issues like climate change, citizens as well as parliaments and many poorer countries are left out in the cold. At the same time, lobbyists from the financial industry enjoy privileged access and influence.

What is the G20?

The G20 consists of the European Union plus 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States.

Various G20 ministerial meetings on finance and other topics, and a summit with heads of state, are chaired by a different G20 country each year. Indonesia currently holds the reins. India will take over in December 2022, and Brazil will likely follow in December 2023.

Failed track record in fixing the financial system

G20 finance ministers and central bankers intervened following the 2008-2009 financial crisis. In order to avoid similar disasters in the future, they agreed to reform the financial industry and oversee all international financial institutions. Still, a host of problems created by banks, the investment industry and the financial system itself were left unresolved. And now, during the global pandemic, these problems have created a new wave of financial challenges.

Failure to avert a new global debt crisis

Once the economic consequences of the pandemic started to emerge in 2020, the G20 finance ministers agreed that the poorest countries could temporarily suspend the repayment of some of their debt. They called upon but did not oblige commercial banks and investors to follow suit. To make matters worse, the Institute of International Finance (IIF), an influential lobby club at the G20, argued that poor countries should ensure they could borrow even more, at ever-increasing commercial interest rates. As a result, commercial creditors continued to receive billions of dollars in debt repayment from the poorest countries, adding to their already inflated profits.

A G20 initiative for actual debt relief for the poorest countries has to date not yielded results. Many low-to-middle-income countries now spend significant parts of their budgets on debt repayment, resulting in shortages in vaccinations, public services and climate change mitigation measures. Many experts fear that debt crises in numerous countries will result in a long-lasting 'pandemic of inequality', affecting billions around the world.

- Civil society demands that the G20 support a comprehensive UN-based mechanism to globally manage debts. In cases of insolvency, debt cancellation by commercial creditors must be enforced.
- Developing countries and civil society – not lobbyists from the financial sector – should be the most important advisors to the G20 on effective solutions to the debt crisis.

Profiting from the pandemic

When the corona pandemic broke out in 2020, speculators panicked and created financial turmoil by swiftly moving their money in and out of countries and markets. In response, the central banks in the richest G20 countries injected a lot of new money into their financial sectors to avoid another financial crisis. But by making more money available without conditions, they also created more opportunities for big profits from speculation and risky investments around the world.

Furthermore, as central banks withdraw this extra money in 2022 without global coordination, rich speculators are pulling their money out from poorer countries. The resulting currency devaluation leaves many countries struggling to repay their foreign debts, and people are facing higher prices as imports of food and energy have become costlier.

- Civil society demands that G20 central bankers: 1) halt their interventions that stimulate global financial speculation; and 2) coordinate their monetary policies to avoid negative consequences for poorer people.
- Civil society demands that the G20 supports measures that stop the movement of high-speed speculative money in and out of countries (i.e. smart 'capital controls').

Tax dodging by global businesses unresolved

In 2021, the G20 approved a low minimum tax rate (15%) for companies that limits, but does not stop, corporate tax dodging. Unfortunately, this did not lead to multinational enterprises (MNEs) paying more taxes in poorer countries. As a result, these countries continue to be deprived of tax income that could be used to provide services for their citizens.

- Civil society demands that the G20 endorses: 1) strict rules obliging MNEs to pay taxes where they make profits; and 2) higher taxes on wealthy individuals and speculative profits made during the pandemic.

Little money for the climate crisis

While debt payments and non-taxed profits flow out of developing countries, G20 finance ministers and central bankers are busy discussing 'sustainable finance' measures to attract more private funds for tackling climate change. Thanks to the financial lobby, their current proposals are highly profitable for banks and investors, and do not tackle inequality. And although only around 1% of global finance is fully climate friendly, the G20 does not prohibit the financing of activities that are climate and environmentally harmful. In short, it fails to act according to the scale of the ecological and social emergencies we face today.

- Civil society demands strict regulations to ensure that loans and investments have positive social impacts and contribute to a just energy transition.

What can we do?

The G20 can no longer make global financial decisions behind closed doors. How can you promote the above-mentioned demands from citizens?

- Tell other citizens, civil society organisations and the media in your country about the important financial decisions that are being taken by the G20 without public oversight or input from affected people and governments.
- Get in touch with your parliamentarians, finance ministry and central bank, and advocate for the global financial changes that are urgently needed to tackle growing financial inequality: debt cancellation; an end to financial speculation, free capital flows and tax dodging; new wealth taxes; and rules to make all loans and investments socially and environmentally impactful.

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