ITUC/TUAC EVALUATION OF THE OUTCOME OF THE G20 LONDON SUMMIT

2 APRIL 2009

Overview

1. Jobs and social issues moved up the agenda in the communiqué[1] of the G20 London Summit by comparison with the November 2008 G20 Summit and with earlier drafts of the G20's communiqué. The International Labour Organisation (ILO) will take part in follow-up to the summit, having been asked to assess the actions being taken by the G20 on employment. The Summit also supported further discussion on a "charter" as proposed by Chancellor Merkel and others to achieve a new global consensus on the key values and principles for sustainable economic activity. 1.1 trillion dollars of largely new funding was agreed for major lending facilities, including Special Drawing Rights - the bulk of which will go to the IMF. However, no new money was agreed for further global stimulus packages. Forward agreement was reached to strengthen international financial regulation, including that of "systemically important" hedge funds; however this is to be in the hands of an expanded Financial Stability Forum – renamed as a "Board" but itself made up of central bankers. This remains far short of trade union proposals for supra-national regulatory authorities, or the "World Finance Organisation" proposed by the French President. An agreement was reached to take action against "non-cooperative" tax havens as identified by the OECD if necessary through sanctions. Leaders agreed to meet again before the end of 2009 "to review progress on our commitments", hence reinforcing the principle of multilateral cooperation and action on global economic issues. It is likely that this will take place in September in New York around the meeting of the General Assembly of the United Nations.

Employment and Social Issues

2. On the eve of the Summit the OECD published its latest interim forecasts for the world economy. These present an appalling picture of the global economy shrinking by 2.7 per cent and the OECD countries by 4.3 percent in 2009. As a result unemployment is likely to double over the course of the year in some major economies. Against this background trade unions conducted advocacy work around the world on the jobs issue, including meetings with G20 leaders in the days prior to the Summit and in London itself. This had its impact. The communiqué emphasises the depths of the crisis facing the world economy and calls for a

[1] http://www.londonsummit.gov.uk/resources/en/PDF/final-communique

global solution (#2). It stresses the importance of "the needs and jobs of hard-working families" (#3) and the need to "restore confidence, growth and jobs" (#4, bullet 1), while its first substantive section is titled "Restoring growth and jobs" and makes reference thereafter (#6) to job saving and creation as a central purpose of fiscal expansion. A major paragraph (#26) considers employment in some detail: creating employment opportunities for those affected by the crisis, including income support measures; building "a fair and family-friendly labour market for both women and men"; welcoming the reports of the G20 London Jobs Conference held on 24 March 2009, and the Rome Social Summit (29-30 March 2009) and the key principles they proposed; supporting employment by stimulating growth, investing in education and training, and active labour market policies, focusing on the most vulnerable; and calling on the ILO with other relevant organisations to assess the actions taken and those required for the future. References in earlier drafts to the OECD were removed, apparently at the request of China and some other non-OECD G20 countries.

3. The Summit did not agree on additional fiscal stimulus measures – it agreed to "take what ever action is necessary" to restore growth and called on the IMF to assess the actions taken. However three points are significant: Firstly, reference to the report of the Rome Social Summit of G8 Labour Minsters means that the generally positive conclusions of that Summit are also endorsed, including its referencing the discussions of the 2009 International Labour Conference in proposals for a Global Jobs Pact[2]. Secondly, the ILO is given an explicit mandate "working with other relevant organisations" both to assess the effectiveness of government policies proposed to date, and to make recommendations for further action by governments in the future. Thirdly, reference to the London Jobs Summit provides the basis for the G20 to constitute further structured cooperation as a follow-up measure, in particular through the potential constitution of a G20 working group on the jobs impact of the crisis. These are all issues on which Global Unions will continue to press.

4. Social and labour issues are further highlighted in reference to the need to adopt "a new global consensus on the key values and principles that will promote sustainable economic activity" (#21). The G20 Leaders state their support for "discussion on such a charter for sustainable economic activity with a view to further discussion at our next meeting", stating "We take note of the work started in other fora in this regard and look forward to further discussion of this charter for sustainable economic activity." The importance of the reference is that a compendium is being prepared by the OECD (most recent draft being late March 2009) which brings together the major international economic and social standards, including the labour standards of the ILO with similar instruments of the IMF, World Bank, WTO and OECD. Labour standards are given equal footing to the main internationally ratified instruments covering trade, finance, development and investment. The G20 statement constitutes progress for this "Merkel-Tremonti" initiative (reflecting the sponsorship of the German Chancellor and Italian Finance Minister) for a global "legal charter" to combine key standards of these five institutions. The next steps taken by the G20 will be key in this process.

Financial Supervision and Regulation

5. The G20 communiqué and its Annex, "Declaration on Strengthening the Financial System"[3] show clear progress when set against the Action Plan agreed in Washington in

[2] http://www.tuac.org/en/public/e-docs/00/00/04/80/document_doc.phtml
[3] http://www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf

November 2008. Alongside the G20 Summit, reports by G20 Working Groups were also published[4], as were a series of recommendations by the Financial Stability Forum (FSF)[5]. Most of the measures agreed in Washington have been further developed with, in many cases, a stronger emphasis on restoring public supervision and regulation than on markets and self-regulation. In particular the G20 reached a breakthrough agreement on tax havens, claiming that "the era of banking secrecy is over" (#15). Yet by remaining within the parameters set by the Washington discussion, the G20 continues to disregard central regulatory issues, such as household credit consumer protection. Moreover, the G20 is almost silent on the design and risk-sharing aspects of the bailout of the banking sector, which to date represents over a quarter of the GDP of the G20.

Commitment to re-regulation

6. The G20 communiqué reveals a new emphasis on the need for regulation. While the November Washington Declaration blamed "policy-makers, regulators and supervisors" for failing to "adequately appreciate and address the risks building up in financial markets", the London statement acknowledges that "major failures in […] financial regulation and supervision were fundamental causes of the crisis" (#13). The need to enhance the mandate of financial authorities to "monitor substantial changes in asset prices" (and hence to prevent speculative asset bubbles), which was stated in Washington is reinforced in London. G20 governments have made a commitment to "amend [their] regulatory systems" to take account of "macro-prudential risks across the financial system including, in the case of regulated banks, shadow banks and private pools of capital" (annex p3).

Uncertainty about the reform of the FSF

7. Regarding international supervision, the G20 is still a step away from the much-needed regional or international consolidation. It does, however, commit to the immediate implementation of FSF Principles for cross-border crisis management and to continue establishing new "supervisory colleges for significant cross-border firms" in addition to the 28 existing (but yet undisclosed) colleges already in place (annex p2). The G20 also announced the transformation of the FSF into the "Financial Stability Board" (FSB), which would have a "stronger institutional basis and enhanced capacity" (annex p1), as well as a broader membership (all G20 countries, Spain and the European Commission). Whether this change will make international financial architecture more accountable and transparent to citizens is an entirely open question. In his press conference, the French President spoke of a new "World Finance Organisation" to emerge from this transformation. Yet the day after the Summit, the FSF issued a press release informing on its re-establishment into the FSB; a press release that reads very much as business as usual[6].

Breakthrough on tax havens, improvements on private pools of capital

8. On regulation, the main achievement is on tax havens. The G20 "notes" the release by the OECD of a list of countries (#15), including a "grey" and a "black" list, for which exchange agreements on tax information between national authorities do not meet international standards. Importantly the G20 will "deploy sanctions to protect our public finances and financial systems" against jurisdictions on the OECD's list (#15). There is,

[4] http://www.g20.org/366.aspx
[5] http://www.fsforum.org/press/pr_090402a.pdf
[6] http://www.fsforum.org/press/pr_090402b.pdf

however, a need for further explanation about the OECD list[7] according to which Belgium, Uruguay and Guatemala pose a greater threat to global tax systems than Jersey, the Isle of Man, Macao and the State of Delaware.

9. The G20 also achieved progress on the issue of private pools of capital. Instead of a "review of the scope" of regulation for institutions "that are currently unregulated", the G20 has committed to "extend regulation and oversight to all systemically important financial institutions [including] important hedge funds" (#15). The IMF and the FSB will have the task of deciding what constitute "systemically important" institutions (annex p3). Hedge funds or their managers "will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage". Similarly, "supervisors should require that institutions which have hedge funds as their counterparties have effective risk management and disclose their holdings" (annex p3).

Supervisors' say on bankers' remuneration contradicts shareholder value doctrine

10. The G20 has made commitments to implementing the FSF programme of work (April 2008), including improving international accounting standards and regulating credit rating agencies. Within that important commitments have been made on mitigating pro-cyclicality of bank executive remunerations and capital adequacy regimes and with regard to the regulation of credit derivatives and securitisation. The G20 has endorsed "tough new" principles by the FSF[8] on pay and compensation (#15): the FSF calls for compensation schemes to be risk adjusted, for risk management staff to have sufficient authority and for shareholders to be actively informed of compensation schemes. It also calls for national supervisory authorities to be given the powers to intervene in case of "deficiencies" in the implementation of FSF principles "with responses that can include increased capital requirements" (annex p4). This significant development constitutes a break with the "shareholder value" doctrine of the past, which prescribes that risk management within the firm is optimal as long as shareholders – and shareholders only – exercise active ownership and oversight over the board of directors. The G20 statement further refers to the "corporate social responsibility of all firms" (#15).

G20 agreement on off-balance sheets and securitisation going beyond FSF recommendations

11. Regarding pro-cyclicality of capital adequacy rules – moving toward risk-based regimes, preventing excessive leverage, building buffers in good times – the London Summit commitments have gone further than would have been expected on the basis of FSF recommendations[9] released the same day as the Summit. The G20 calls for agreement on "a simple, transparent, non-risk based measure [of capital] which […] properly takes into account off-balance sheet exposures" (annex p2). Extending capital rules to off-balance sheet exposures would reduce the attraction of such arrangements for banks. Similarly, regarding securitisation, the London statement calls for the Basel Committee "and authorities [to] take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements, by 2010" (annex p2). The requirement that banks retain partial ownership of the underlying assets of the products that they securitize is called for in recent EC proposals but is not in the corresponding FSF recommendation on pro-cyclicality. The G20 text also contains improved wording on bringing stronger oversight securitisation and credit derivative transactions. While the

[7] http://www.oecd.org/dataoecd/38/14/42497950.pdf
[8] http://www.fsforum.org/publications/r_0904b.pdf
[9] http://www.fsforum.org/publications/r_0904a.pdf

Washington G20 Declaration spoke of industry-led "clearing houses" for credit default swaps (CDS) and over-the-counter (OTC) derivatives transactions, the London communiqué refers to "central clearing counterparties subject to effective regulation and supervision" (annex p3), thus recommending the public supervision of these private exchanges.

Other regulatory issues are missing

12. The main regulatory issue missing from the communiqué regards household credit consumer protection. Inadequate regulation of household credit lay at the heart of the 'subprime' crisis in the US and has been identified as key by other global fora including the UN Stiglitz Commission, the OECD and the US Congress Oversight Panel. Other issues raised by trade unions that are not taken up by the G20 include: "pro-cyclicality" of shareholder remuneration (dividends and share buy-backs); leveraged buy-outs; linking the 'colleges of supervisors' with employee representative structures in the financial sector (e.g. works councils and international framework agreements); international taxation; impact of the crisis on pre-funded pension schemes; promotion of alternative banking models such as credit unions, cooperative banking and public financial services.

Also missing: the bailouts of the banking sector

13. The G20 communiqué barely addresses the issue of recapitalizing the banking sector and restoring the credit market for the real economy. It limits itself to describing efforts undertaken so far and calling for the mitigation of impacts on developing countries and the avoidance of "financial protectionism"(#22). Yet the design of the bailouts and risk-sharing between tax payers and bankers vary considerably within the OECD. According to IMF and the OECD[10] taxpayers' money equivalent to 28% of G20 GDP has been spent or exposed so far. Upfront financing alone (i.e. capital injections and repurchasing of toxic assets) represent: 6.3% of GDP for the US; 19.8% of GDP for the UK; 6.2% for the Netherlands; 5.8% for Sweden; 8.8% for Canada; 3.7% for Germany; and 1.5% for France. Banks are still not lending credit despite the hundreds of billions poured into them to save them; the next stage may well see the worsening of 'credit quality' in banks' balance sheets, most likely repeating the scenario of a credit meltdown from last autumn. The G20 communiqué does not deliver answers to these concerns.

Development, IFIs, Trade And Environment

The IFIs

14. The G20 Summit reinforced the IMF's position of leadership in treating the impact of the global financial crisis by endorsing expansion of resources to the IFIs (IMF, World Bank and regional development banks) for the purpose of financing "counter-cyclical spending, bank recapitalisation, infrastructure, trade finance, debt rollover, and social support" in developing countries (#17). G20 leaders agreed to triple IMF core resources to reach $750 billion and to allocate $100 billion for Multilateral Development Banks (#17).

15. The G20 Summit supported an allocation of $250 billion of additional SDRs (#19) and gold sales by the IMF (#25, third bullet) and endorsed implementation of the Fund's new

[10] OECD Committee on Financial Markets, April 2009 & IMF "The State of Public Finances: Outlook and Medium-Term Policies After the 2008 Crisis" March, 2009

Flexible Credit Line (for countries that meet stringent pre-conditions but otherwise without ongoing conditionality) and its "reformed lending and conditionality framework" (#18). While welcome, this needs to be contrasted against the fact that when the IMF recently introduced its new conditionality framework, one of the features of which was the discontinuation of structural performance criteria, it insisted that "structural reforms will continue to be integral to Fund-supported programmes" and be monitored at the time of loan reviews by the Fund's board. It should also be noted that the IMF has made no move to discontinue quantitative performance criteria, which have been used to impose austerity conditions in most of the emergency loans granted by the Fund over the past six months. If the IMF is to live up to the G20 commitment that additional resources to the IFIs must help "finance counter-cyclical spending", a substantial further reform of IMF conditionality will be necessary. However, the communiqué does emphasise the importance of reforming and modernising the international financial institutions, and to increase their credibility and accountability (#20).

16. It should be noted that of the additional $1.1 trillion of financing promised for the IFIs, less than 5 per cent will be for low-income developing countries and not all of it will be allocated on concessionary (interest-free) terms. It is nevertheless a far greater sum for developing country financial support than was previously made available. It is important, especially in a context where some donor countries have announced a reduction in development assistance budgets, that the commitments made by the G20 are fully financed and implemented and the financial support allocated quickly and without structural adjustment and austerity conditionality. Developing countries must be supported in their efforts to participate in global economic recovery, to fund employment creation projects and to provide assistance to the most vulnerable. A part of the new financial resources for the IFIs, notably the sale of IMF gold, should be used to extend the cancellation of unsustainable debts to a greater number of poor countries.

17. Regarding IMF governance, reference in an earlier draft to the creation of a Ministerial-level council to oversee the IMF's strategy has been replaced in the final version by a statement merely that "consideration should be given to greater involvement of the Fund's Governors in providing strategic direction to the IMF" (#20, second bullet). The IMF is, however, called upon to implement its existing agreement on quota and voice reforms and to complete a new review by 2011 (#20, first bullet). The references to World Bank governance reform are slightly weaker than in earlier drafts, calling for World Bank governance reforms to be decided by the 2010 Spring Meetings of the IFIs, which may mean that real reform is slow to come (#20, third bullet).

18. Additionally, other than endorsing the vague concept of "greater voice and representation" at the IFIs for emerging and developing economies (#20), the G20 communiqué sets no specific parameters for the results of the reform process. The ITUC and several other organisations have proposed that the representation of developing countries at the IFIs be at least equal to that of the industrialised countries.

19. Both institutions are required to select their heads and senior leadership "through an open, transparent and merit-based selection process" (#20, fifth bullet).

Development

20. Commitment to meeting the Millennium Development Goals and to meeting earlier pledges on ODA and on debt relief is reaffirmed (#25, first bullet), in the context of recognition of a "collective responsibility to mitigate the social impact of the crisis". Social protection is singled out for mention (#25, first and second bullets), although the amount for social protection specifically is not identified, within $50 billion that is mentioned for low income countries; the mechanisms for transmitting such funds are to include World Bank facilities.

21. A role is given to the UN with the call on "the UN, working with other global institutions, to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable" ($25, fifth bullet).

Trade

22. On trade issues, G20 countries reiterated the commitment they made in Washington not to raise new barriers to trade or investment, or any measures to stimulate exports inconsistent with WTO rules, up to the end of 2010 (#22, first bullet). They undertook to notify any measures to protect domestic sectors to the WTO and called on the WTO together with other bodies to monitor and report publicly on these undertakings every three months (#22, third bullet), thus creating a form of "name and shame" system. G20 governments say that they will make available $250 billion for trade finance over the next two years (#22, last bullet). There is a commitment to reaching a conclusion to the Doha Round "building on the progress already made, including with regard to modalities" (#23). The last point must be considered as providing cause for serious concern, in light of the negative development implications of the most recent level of modalities negotiated seriously in the context of the WTO negotiations.

Environment

23. With regard to the environment, it is agreed that fiscal stimulus programmes will particularly seek to build a "sustainable and green recovery" with "transition towards….low carbon technologies and infrastructure", partly financed by the MDBs (#27). The G20 governments "reaffirm our commitment to address the threat of irreversible climate change, based on the principle of common but differentiated responsibilities, and to reach agreement at the UN Climate Change conference in Copenhagen in December 2009" (#28) – the wording on "common but differentiated" was added only in the final draft, clearly as a way of achieving agreement of the developing country members of the G20 to include the paragraph.

Conclusions

24. The G20 London communiqué opens the door to further monitoring of action on jobs. This could lead to a G20 working group on the jobs impact of the crisis. This will be desperately needed so as to generate further action to combat the jobs crisis as the situation worsens over the months ahead. The references to the role of the ILO mean that it will need to be invited to the next G20 Summit in the autumn also strengthening its monitoring role. The progress on financial regulation, including tax havens, is positive although the key organisation is to be the Financial Stability Forum – now constituted as a "Board". Trade unions must have the opportunity to influence the structure and workings of the new Board, and ongoing access to its decision-making and work programme, which has to be fully

transparent and accountable. As we have said repeatedly over recent months, the same people who were supposed to avert this crisis and failed cannot be given the job of designing the rules for the future. The IMF is given key roles – making it essential for governments to ensure that changes do occur in the conditionality of the IMF lending so that it encourages growth-based, counter-cyclical crisis responses. It is also essential to continue to press for a more equal voting structure for developing countries at the IMF and World Bank; and the development of a charter of international rules that puts labour standards on an equal footing to trade and finance. Trade unions will need to work intensively over coming weeks and months to maintain pressure on governments and international organisations to undertake practical action to implement the aspirations of the London G20 Summit.

25. Beyond these immediate priorities governments must begin work on a framework of governance that changes the failed paradigm of market fundamentalism that has dominated policy and major international institutions for the past three decades.