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TUAC/ITUC EVALUATION OF THE OUTCOME OF THE G20 SUMMIT ON FINANCIAL MARKETS AND THE WORLD ECONOMY WASHINGTON DC

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1. Trade unions urged leaders at the G20 summit, as the first priority, to agree to take urgent action to support the real economy, given the rapidly deteriorating situation, with forecasts of falling GDP and surging unemployment in the industrialized countries in 2009 expected to spread to the emerging and developing economies and the corresponding rise in poverty and hardship[1].

2. The G20 declaration states that the situation calls for “urgent and exceptional measures” to support the global economy (para. 2) and that a “broader policy response is needed, based on closer macroeconomic cooperation, to restore growth, avoid negative spillovers and support emerging market economies and developing countries” (para.7). However, the text is almost devoid of detail, providing little indication of how such coordinated action is to be undertaken. It only mentions “monetary policy support, as deemed appropriate to domestic conditions” and that the G20 will “[U]se fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability” (para. 7). The declaration underscores “the critical importance of rejecting protectionism […] in times of financial uncertainty” and includes a commitment to “strive” for a successful conclusion to the Doha Round. It fails, however, to recognise the importance of protecting fundamental workers’ rights and boosting development as part of this process. Unions were looking for a far more concrete and convincing description of the measures to be taken to address the employment crisis: support for jobs in the short term that provides sustainable growth in the medium term. Support for growth in developing countries is relegated to the multilateral development banks (MDBs) – notably the World Bank. However, although the action plan states that G20 governments are ready to increase the MDBs’ resources, “if needed”, no specific commitment is made to do so. Last week the World Bank announced its own action plan to counter the financial crisis where it only promised to “front-load” concessionary assistance, meaning that, as far as low-income countries are concerned, more funds disbursed by the Bank in 2009 will mean they will get less money in 2010 and 2011. The statement reaffirms the “importance” of the Millennium Development Goals (MDGs) and “urges” governments to meet their development assistance commitments. It expresses “commitment” to addressing climate change.

3. Unions also called on the G20 to re-regulate financial markets to ensure that the crisis, which began in 2007 and worsened dramatically in September 2008, never happens again. The bulk of the G20 declaration and the attached action plan is devoted to setting out

[1] Trade Union Statement to the "G20 Crisis Summit" - The Global Unions "Washington Declaration, 13 November 2008 - http://www.tuac.org/en/public/e-docs/00/00/03/66/document_doc.phtml

“common principles for the reform of financial markets”: “strengthening transparency and accountability”; “enhancing sound regulation”; “promoting integrity in financial markets”; and “reinforcing international cooperation”. The declaration and action plan provide some detail on the elements to be covered in these principles with a strong emphasis on measures “enhancing sound regulation”. Their implementation is, however, devolved to Finance Ministers within the 2009 G20 framework, who are mandated to “initiate processes” and set out a “timeline” for action, by 31 March 2009. The Finance Ministers are required to appoint “eminent independent experts” and to formulate recommendations on the following: “pro-cyclicality in regulatory policy”; “accounting standards, particularly for complex securities”; credit derivatives markets” and regulating “over-the-counter markets”; “reviewing compensation practices”; and oversight of “systemically important institutions”.

4. The attached Appendix compares the measures set out in the G20 action plan, with those called for in the ITUC, TUAC and Global Unions’ Washington Declaration. Some major issues raised by the Global Unions are left un-addressed by the G20 statement, including: public accountability of central banks; promotion of community-based financial services; protection of pension schemes; international taxation; and limits to speculative trading. Of even greater concern is the absence of reference to household consumer protection against predatory lending and aggressive sales policies by banks. This needs to be redressed in the implementation of the action plan. However, other key issues are addressed. Despite the rhetoric of a “commitment to free market principles” and warnings against “over-regulation”, these proposals establish a road map for the review of global financial regulation to which governments can be held to account. If properly implemented, this may well begin the process of re-regulating the financial markets. Whilst some of the points reiterate commitments made in previous G8 statements – e.g., enhancing the work of the International Accounting Standard Board (IASB), the International Organization of Securities Commissions (IOSCO) and the Basel Committee, respectively, on valuation of structured products, credit rating agencies and bank capital regulation and liquidity risk – several proposed actions mark a significant departure from past statements. These include taking “immediate actions” to: bring trading of derivative products and over-the-counter transactions in line with basic transparency and exchange trade standards; “enhance guidance” on bank risk management and internal controls; and create a “college of supervisors” to monitor large conglomerates (i.e., that are ‘too big to fail, too big to be saved’). The G20 statement also calls for prompt governance reforms of the IASB, as well as for “immediate actions” to be taken on executive compensation, so as to mitigate bank pro-cyclicality regulation and curb “excessive short-term return or risk taking” behaviour.

5. The G20 statement has the merit of acknowledging that there are regulatory gaps in the global financial system, which was not the case in past G8 statements. In particular the G20 leaders have committed to undertaking “a review of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated”. It is not yet clear, however, whether such a review would effectively tackle the regulatory gaps that benefit speculative hedge funds and private equity groups and other un-regulated pools of capital. In the short term, the G20 leaders appear to hope that private equity and hedge funds will be able to police themselves, since the declaration limits itself to calling on these funds to take the initiative to develop "a set of unified best practices" for later consideration by governments. Moreover, there is no acknowledgement of the need to give trade unions, the International Labour Organisation (ILO), or other groups, a seat at the table in these on-going negotiations. The risk is that regulation will be undertaken by those same people who were responsible for the crisis in the first place.

6. The G20 also proposes to begin the process of reforming the Bretton Woods Institutions, including addressing the need to increase developing country representation in these institutions. The declaration does not, however, say how this process will differ from the modest voting rights reform processes that the IMF and World Bank have themselves initiated over the past year. The declaration promises to expand the 15-member Financial Stability Forum (FSF), based in Basel, which currently has no developing country members. The expanded FSF, the IMF and unnamed “other bodies” are given a central role in the “new” architecture and are charged with developing recommendations for strengthened regulatory regimes, by 31 March 2009. Overall, the IMF and the FSF are given the key macroeconomic and regulatory roles respectively. The statement remains silent, however, on the fundamental need for the IMF to reform its lending policies: to abandon the austerity conditions of the past and adopt ‘positive conditionality’, which assists countries to restore short-term growth, fair distribution of costs and benefits and long-term sustainability. While the role of the OECD – in relation to the regulation of tax havens – is recognized, that of the ILO is not, despite its mandate on the employment impacts of financial market policy set out in the ILO’s Social Justice Declaration. However, more radical reform of governance is on hold: it remains to be seen whether the G20 will now replace the G8 as the main summit on economic issues.

7. The G20 leaders and their Finance Ministers are due to meet again before April 30 2009, to review implementation. In the weeks and months ahead, the Global Unions will be stepping up pressure for action at all levels in what will be a deteriorating employment situation. As stated in the Global Unions’ Washington Declaration, the divergence of interests between unregulated and unmanageable financial markets, on the one hand, and the financing needs of the real economy to provide decent work on the other, has brought the global economy to the verge of catastrophe. According to the OECD, the international financial architecture should be judged upon its capacity to “maintain financial stability by ensuring solvency of market participants”, to “protect investors” against failures and fraud, and “to ensure efficient and effective financial markets”. In past weeks it has become clear that the system has failed to deliver on all three objectives. Now looking beyond the G20 meeting, cooperation must be extended at all levels – G7, G8, Europe, OECD and the IFIs – to avoid regulatory arbitrage and ensure global reach of the new architecture. Working people require a seat at the table in these meetings and institutions. They have little confidence that bankers and governments meeting behind closed doors will get it right this time. There must be full transparency, disclosure and consultation. The Global Union organisations are ready to play their role in this process.

Appendix: Comparative Overview of the Global Unions Washington Declaration on Financial Re-regulation and Outcome of the G20 Summit

Global Unions' Washington Declaration (13 November 2008)[2]	**G20 Declaration (15 November 2008)**
Paragraphs 22-23	**Preamble and Action to Implement Principles for Reform**
"Ensuring that central banks are publicly accountable for their actions."	Not addressed
"Ensuring that central banks have the necessary mandate to deter and detect speculative financial bubbles."	*"Authorities should monitor substantial changes in asset prices and their implications for the macro-economy and the financial system."* (Medium-term action)
"Ensuring active supervision, proper counter-cyclical asset requirements and accounting rules for banks and large financial conglomerates."	*Regulators and global accounting standards bodies should work to enhance disclosure and guidance for the valuation of complex, illiquid products, and off-balance sheet vehicles;* *"The IMF, expanded FSF, and other regulators and bodies should develop recommendations to mitigate pro-cyclicality bank capital regulation and executive compensation."* (Immediate action by 31/03/09)
"Prohibiting all forms of off-balance sheet transaction."	*"Regulators should work to ensure that a financial institution' financial statements include a complete, accurate, and timely picture of the firm's activities (including off-balance sheet activities) and are reported on a consistent and regular basis."* (Medium-term action)
"Submitting foreign investments and capital flows to proper domestic regulation, including observance of internationally recognised governance and transparency standards."	*"We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services"* (Preamble) *"All G-20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessments of countries' national regulatory systems"* (Medium-term action)
"Promoting community-based financial services such as cooperative and mutual systems and targeted micro-finance schemes negotiated with national social partners."	Not addressed
"Improving consumer protection so as to protect households against predatory lending and aggressive sales policies by banks."	Not addressed
"Enhancing the social purpose of pension schemes to provide decent retirement in both pension funding and investment regulations."	Not addressed
"Establishing an international regime for taxing financial transactions the proceeds from which could help support financial institutions that bear social objectives, such as pension funds"	Not addressed
"Regulating credit risk transfers, derivatives and futures and addressing the oligopolistic structure of the credit rating agency industry, including by establishing	*Regulators and IOSCO securities regulators should regulate credit rating agencies to " avoid conflicts of interest, provide greater disclosure to investors and to*

[2] Trade Union Statement to the "G20 Crisis Summit" - The Global Unions "Washington Declaration, 13 November 2008 - http://www.tuac.org/en/public/e-docs/00/00/03/66/document_doc.phtml

Global Unions' Washington Declaration (13 November 2008)[2]	**G20 Declaration (15 November 2008)**
public agencies and developing non-financial sustainability rating."	*issuers, and differentiate ratings for complex products"; ensure "strengthened capital requirements for banks' structured credit and securitization activities;" and "speed efforts to reduce the systemic risks of CDS and over-the-counter (OTC) derivatives transactions; including exchange traded or electronic trading platforms , market transparency."* (Immediate action by 31/03/09)
"Regulating private investment firms such as hedge funds and private equity."	*"Private sector bodies that have already developed best practices for private pools of capital and/or hedge funds should bring forward proposals for a set of unified best practices. Finance Ministers should assess the adequacy of these proposals."* (Immediate action by 31/03/09) *"A review of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated, should also be undertaken."* (Medium-term action)
"Combating regulatory arbitrage within large financial groups and between jurisdictions."	*"Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms"* (Immediate action by 31/03/09)
"Adopting controls to limit speculative behaviour in trade exchanges including commodities and energy markets."	Not addressed
"Curbing corporate short-termism (1) by strengthening governance and tax rules on executive compensation."	*"Action needs to be taken, through voluntary effort or regulatory action, to avoid compensation schemes which reward excessive short-term returns or risk taking";* *"The IMF, expanded FSF, and other regulators and bodies should develop recommendations to mitigate pro-cyclicality bank capital regulation and executive compensation."* (Immediate action by 31/03/09)
"Curbing corporate short-termism (2) by strengthening governance and tax rules on board of directors' responsibilities, risk management and distribution of corporate profits."	*"Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices"* (Immediate action by 31/03/09)
"Strong action is also required to stem the loss of revenues to tax havens [...]. This will require strengthening the political support for the OECD's work in this area."	*"Authorities should implement national and international measures that protect the global financial system from uncooperative and non-transparent jurisdictions";* *"Tax authorities, drawing upon the work of relevant bodies such as the [OECD], should continue efforts to promote tax information exchange."* (Medium-term action)