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ITUC/TUAC EVALUATION OF THE G20 FINANCE MINISTERS' MEETING (ST ANDREWS, 7 NOVEMBER 2009)

Introduction and Summary: Action for Employment Welcome, but Many Questions Remain

1. The G20 Finance Ministers meeting in St Andrews, Scotland decided to keep jobs high on the agenda for economic recovery and reform and to "maintain government support for the recovery until it is assured". The meeting also decided that the ILO will have a role in assessing the effectiveness of G20 policies for "strong, sustainable and balanced growth", although the major players in this process will still be the International Monetary Fund and the World Bank. A number of serious questions remain unanswered by the St Andrews meeting, including with regard to assistance for developing countries, a global financial transactions tax, the transparency and governance of the Financial Stability Board (FSB), and the commitment of resources to tackle climate change.

2. With regard to financial reform, the G20 Ministers made a welcome commitment to maintain the "momentum" of reforms and to continued efforts on ending tax havens. However the brief section on financial regulation reveals a gap between the political level of the G20 process, which emphasises prompt delivery on financial reregulation as a matter of public accountability and democracy, and the slow pace and to some extent impotence of the institutions that are in charge of the implementation, as seen in the recent reports prepared by the FSB and IMF. Now, more than ever, political momentum for change and for regulation of global finance must be supported and should not wane.

ECONOMIC RECOVERY MEASURES AND EMPLOYMENT

3. The Communiqué of G20 Finance Ministers and Central Bank Governors is relatively short (two pages). It begins by referring to recent improvements in economic and financial conditions, but warns that "the recovery is uneven and remains dependent on policy support, and high unemployment is a major concern" (paragraph #2). It then reconfirms the Pittsburgh

position that additional fiscal efforts will be continued as long as necessary, stating that "we agreed to maintain support for the recovery until it is assured" (#2, and reiterated in #4) – this corresponds to the trade union demand for coordinated global stimulus actions to be maintained until employment recovers.

4. The Communiqué does not go into detail on employment recovery strategies – but a G20 Labour Ministers' Meeting is to be held in early 2010. Employment is mentioned as one of the goals of future economic policy (#4), although it has a worryingly low priority, being only listed fourth out of the five priorities that are mentioned.

5. Along with the commitment to maintain recovery programmes, the Communiqué speaks of exit strategies, saying "we also commit to develop further our strategies for managing the withdrawal from our extraordinary macroeconomic and financial support measures" (#4). There is a welcome commitment to coordination of such measures in the statement that "We agreed to cooperate and coordinate, taking into account any spillovers caused by our strategies, and consulting and sharing information where possible" (#4).

THE LONGER-TERM: GLOBAL ECONOMIC COORDINATION AND GOVERNANCE

6. With regard to the new "G20 Framework for Strong, Sustainable, and Balanced Growth" establishing a peer review process, as agreed in Pittsburgh, the Communiqué provides a timetable for such work to establish "a new consultative mutual assessment process to evaluate whether our policies will collectively deliver our agreed objectives" (#3).

7. The Communiqué gives a primary role in this process to the IMF and World Bank, stating that "We will be assisted in our assessment by IMF and World Bank analyses" (#3). As the ITUC/TUAC Evaluation of the Pittsburgh G20 Statement noted, given the IMF's record of promoting highly pro-cyclical, contractionary and inequality-creating economic policies, this stands to constitute a major problem that could prevent governments from taking effective measures to attain high growth and employment with quality social policies. There is no reference to any change in IMF conditionality or other policy recommendations in the Communiqué. Furthermore the enumeration of the goals of the Framework (#4) provides little comfort since it begins by speaking of "sustainable public finances; price stability; [and] stable, efficient and resilient financial systems" as the first three objectives, before speaking of "employment creation; and poverty reduction".

8. However, in one important aspect trade union concerns have been taken up as the Communiqué does state (#3) that these assessments will include "the input of other international organisations as appropriate, including the FSB, OECD, MDBs, ILO, WTO and UNCTAD." Given that only the IMF and World Bank were referred to in Pittsburgh, the reference to the ILO is potentially important. Trade unions had argued strongly that the ILO must be given the mandate for the G20's assessments of employment issues, given that the IMF has no competences in this area.

9. There is no comment on transparency and governance of the Financial Stability Board (FSB), despite its primary role in designing new architecture for financial regulation.

10. The Communiqué reiterates the existing G20 commitments to meeting the deadlines of "representation and governance reforms ….[by] the 2010 Spring Meetings for the World Bank and January 2011 for the IMF" and to "complete the 2008 quota and voice reforms". There is no comment regarding the low-income countries most affected by the IFIs' policies, meaning that presumably the increased representation will be for the main benefit of rapidly growing "emerging market" countries. There is no reference to consultative structures for trade unions and other representative civil society organisations.

11. There is no reference anywhere in the statement to UN processes or to the Open-ended Working Group of the UN General Assembly on the World Economic and Financial Crisis and its Impact on Development, as established by the UN high-level conference on the crisis in June 2010. The Communiqué does make reference to UNCTAD which is mentioned along with the ILO as being requested to make an input "as appropriate" in the G20 Framework assessment processes (#3).

12. The OECD is also mentioned specifically in the context of the G20 Framework (#3), which may be considered a gain for the OECD since its participation in G20 processes had been opposed by China at G20 Leaders' Summits, both in London and in Pittsburgh.

13. In Pittsburgh it had been agreed that work would continue on the draft "Charter for Sustainable Economic Activity" proposed by German Chancellor Angela Merkel. Charter. While there is no reference in the Communiqué to the Charter that is not necessarily problematic, as in any case such a Charter needs to go beyond Finance Ministries alone in order to be comprehensive.

14. The timetable for future implementation of the G20 Framework envisages these dates:

- January 2010 – policy frameworks, programmes and projections to be "set out", at national level and regional level (*the latter presumably referring to the EU*);
- April 2010 – the initial phase of "our cooperative mutual assessment process, supported by IMF and World Bank analyses, of the collective consistency of our national and regional policies with our shared objectives" to be conducted;
- June 2010 – the G20 Leaders' Summit in Canada is to consider "a basket of policy options to deliver those objectives";
- November 2010 – the G20 Leaders' Summit in Korea is to be provided with a refined mutual assessment and "more specific policy recommendations".

FINANCIAL REGULATION AND THE GLOBAL TAXES CONTROVERSY

15. With regard to finance (# 6), the G20 Finance Ministers pledge to keep the "momentum" of reforms and to work with the Financial Stability Board (FSB) to ensure "timely and consistent implementation" of the measures agreed by G20 Heads of States. Four issues are singled out in the text: (i) bank prudential regulation and revision of Basel II framework, (ii) "urgent" implementation of the G20 and FSB rules on bankers and traders' pay, (iii) cross border firm-specific surveillance of "systemically important institutions" and (iv) international cooperation between the OECD-led Global Forum on tax transparency, the FSB and the FATF on tax havens.

16. On prudential regulation specifically (#6, first bullet), the G20 Communiqué recalls existing plans for revision of the Basel II framework and implementation by end-2012 once "recovery is assured". It is added however that G20 supervisors should "ensure that banks retain, as needed, a greater proportion of their profits to build capital to support lending". This is welcome insofar as it promotes more authoritative forms of prudential regulation than Basel II (which relies on bankers' self-assessment extensively), as called for in the Trade Union Statement to St Andrews. This commitment to "ensure" that profits are retained (and hence not distributed to banks' shareholders) also stands in contradiction with the "shareholder value" doctrine on corporate governance that prevails at the OECD and the IFIs. While addressed in new FSB reports on the crisis (see below), the Communiqué does not itself provide proposals for any new supervisory architecture such as the creation of "systemic regulators" that could, inter alia, prevent the emergence of future speculative bubbles, nor on the need for immediate and comprehensive loss recognition by banks that would provide the basis to restore public confidence and resume lending to the real economy.

17. The references to bankers' and traders' pay (#6, second bullet) hinge upon the FSB "Principles for Sound Compensation Practices" with implementation immediately by all firms in G20 countries and the FSB to report back on implementation by March 20010.

18. Regarding cross-border resolution and surveillance of "systemic important financial institutions" (#6, third bullet), the G20 Communiqué welcomes the release on the same day of a joint FSB/BIS/IMF report on "Guidance to Asses the Systemic Importance of Financial Institutions, Markets and Instruments" prepared at the request of the G20 Summit in London in April. However, that report proposes very general "high level" guidance on how to assess systemically important institutions with no practical use other than preparing the ground for further work. Another FSB report released simultaneously[1] stresses that two years after the sub-prime crisis began in April 2007, "significant lack of information" of financial authorities "as well as data gaps" on key "vulnerabilities", including an "understanding of where risks actually lie" remains of concern. As such the FSB reports are worrying in that they reveal the extent to which the national and financial authorities have lacked, and still lack, the essential tools to monitor and control global finance effectively. The identity of the firm-specific "colleges of supervisors" established under the aegis of the FSB remains undisclosed. No reference is made to concrete steps to bring hedge funds and private equity firms in line with minimum standards of transparency and accountability with respect to regulators.

19. Yet the most telling part of paragraph 6 on financial regulation is the reference (third bullet point) to the G20 Pittsburgh request to the IMF to study how "the financial sector could contribute to paying for burdens associated with government interventions to repair the banking system", which the G20 Finance Ministers "look forward to discussing" but do not propose any specific direction or framework for. News reports have shown how divisive the issue has become within the G20. Germany and France are explicitly in favour of a broader discussion on a financial transaction tax, while the US, Canada and Russia are strongly opposed to it. In his speech at the Summit, the British PM Gordon Brown reversed the UK position on these issues by including the financial transaction tax (FTT) in the list of options that the IMF should consider along with a global bank "insurance fee", and other industry-funded "contingency" and "resolution funds", which exist already in several jurisdictions. The discussion on the FTT is

[1] http://www.financialstabilityboard.org/publications/r_091107e.pdf

crucial. Unlike the latter options, a global FTT would effectively downsize global finance by reducing short term frequent trading, volatility in asset prices and hence the formation of speculative bubble while providing tax revenues (in the range of US$ 10billion to US$ 1trillion) for global public goods and funding of public debts accumulated in the real economies. By contrast the alternative proposals, strongly favoured by the IMF, would not be linked to asset price volatility and would not generate additional money to support the real economy. Furthermore, the global insurance option could be understood as an acknowledgement that regulation cannot be devised that could cope with large financial groups that are at the same time too big to fail yet also too big to be regulated and supervised. They may lead only to global finance growing larger.

20. The continued emphasis on further incentives and countermeasures on tax havens (#6, fourth bullet), with regard to maintaining the Pittsburgh timetable for action on non-complying jurisdictions from March 2010, is clearly welcome.

21. Reference is made to the need to continue work on the World Bank's Stolen Assets Recovery Programme (#5) to stop the flow of illegal capital from developing countries.

DEVELOPMENT, ENVIRONMENT AND TRADE

22. There is almost no reference to development assistance, except in the form of supporting sufficient resources for the IFIs and an "ambitious replenishment of IDA and the African Development Fund" (#5).

23. Regarding food security, there is only an implicit reference, through the "call on the relevant institutions to finalise their work on ways to avoid excessive commodity price volatility" (#5).

24. The Communiqué issued by the St Andrews meeting does include references to the need for financing to tackle climate change (#7), however no concrete commitments are given either in terms of actual funds to be made available or on the emissions reductions that need to be agreed at the UN Conference in Copenhagen next month. This is particularly regrettable given that the Pittsburgh G20 Statement had given the Finance Ministers a specific mandate to discuss respective financial commitments. No reference is made to the social dimensions of climate change, "just transition" proposals or green jobs. The absence of clear commitments on financing either within the industrialised economies or to help developing economies find a low-carbon development path does not bode well for success in Copenhagen.

25. The Pittsburgh commitment to phase out fossil fuel subsidies is reiterated and, on the basis of a joint report on energy subsidies to be written by the International Energy Agency (IEA), OPEC, OECD and World Bank to produce a joint report for our next meeting on energy subsidies, the next G20 Finance Ministers are mandated to prepare "implementation strategies and timeframes, based on our national circumstances, for rationalising and phasing out inefficient fossil fuel subsidies that encourage wasteful consumption, and for providing targeted assistance programmes" (#5). The reference to assistance is potentially important in terms of mitigating the impact of reduced subsidies on low-income groups that currently depend on affordable fossil fuel (e.g. for heating).

26. There is no reference at all to trade, despite the imminence of the 7th WTO Ministerial Conference, starting on 30 November 2009.

NEXT G20 MEETINGS

27. The Communiqué refers to various deadlines for reports and processes to be adopted in January, April and June 2010, and it may be surmised that further G20 Finance Ministers will be meeting on some or all of those occasions. However the Communiqué does not refer specifically to the date of the next G20 Finance Ministers' meeting. It ends (#8) by welcoming Korea's chairing of the G20 in 2010 and to France's chairing in 2011, having referred earlier (#3) to the G20 Leaders' Summits in Canada (June 2010) and Korea (November 2010).

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