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Subcommittee on Terrorism, Nonproliferation and Trade

Hearing on The Foreign Policy Implications of U.S. Efforts to Address the International Financial Crisis: TARP, TALF, and the G-20 Plan

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Good afternoon, Chairman Sherman and Ranking Member Royce. Thank you for the opportunity to testify today. My name is Damon Silvers. I am Associate General Counsel of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). I was appointed to the Congressional Oversight Panel created by the Emergency Economic Stabilization Act of 2008 jointly by Speaker Nancy Pelosi and Senate Majority Leader Harry Reid, and I serve as the Panel's Deputy Chair. My remarks today though are my own, and do not necessarily reflect the views of the Panel, its staff or its chair, Professor Elizabeth Warren.

The Subcommittee asked that I address issues relating to the international impact of the steps taken under the Emergency Economic Stabilization Act, including both TARP and TALF, and initiatives taken by theG-20 to address the global economic and financial crisis, and that in particular I speak to the views of the global labor movement on the G-20 initiatives.

Along with global macroeconomic imbalances, credit practices and deregulatory policies in the United States were fundamental causes of the current crisis. These practices and policies had analogues in a number of other developed countries, particularly in the United Kingdom, Ireland, Spain and parts of Eastern Europe. Furthermore, toxic assets, including mortgage-backed securities and credit default swaps originating in the U.S. were sold in global credit markets, finding their way into portfolios in countries such as Norway whose domestic mortgage markets were well regulated.

Consequently, as the financial crisis developed and evolved into a severe global recession, there was a clear need for a coordinated response by the governments of the world's largest economies to both the immediate financial and economic distress and to the weaknesses in financial regulatory structures. Initially, this urgent need produced the coordinated recapitalization of major banks by the U.S. and U.K. governments in October, 2008, the first use of funds under the EESA.

When the G-20 subsequently met in December, 2008 in Washington, there was a clear sense that there needed to be coordinated international action to address both the worsening economic crisis and its underlying structural causes. The resulting statements from that meeting and a second G-20 meeting in London in April of 2009 embodied commitments on the part of the participating countries to support a strengthening of the international financial regulatory framework through expanding the Financial Stability Forum and the role of the IMF, and to continue to coordinate the immediate work of responding to the global financial crisis.

At the same time of course, the United States government dramatically escalated its interventions in our financial system through the EESA, including the Capital Purchase Program, the Systemically Significant Failing Institutions Program, the Targeted Investment Program that gave extraordinary assistance to Citigroup and Bank of America, and the TALF program that financed investments in asset-backed securities by private parties. In conjunction with these programs, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve provided a variety of guarantees and credit facilities separate from the EESA. Collectively, these initiatives have provided close to $4 trillion in financing to U.S. based financial institutions.

When Congress enacted the EESA, Congress provided that EESA funds could only be expended to support U.S.-based financial institutions.[1] As a result, the Congressional Oversight Panel has not identified any non-U.S. institutions receiving public funds directly under the Capital Purchase Program, the Systemically Significant Financial Institutions Program, the Targeted Investment Program, or the TALF program. This limitation on TARP I believe reflects a judgment that in general rescue plans for financial institutions should be funded by their home country governments.

However, Congress did not bar foreign financial institutions from indirectly benefitting from EESA expenditures, and in my judgment given the nature of EESA there would be no practical way to enact or enforce such a ban on indirect benefits should Congress feel such a ban were desirable. However some indirect expenditures are more indirect than others. In particular, a very large proportion of the funds provided to AIG under a credit facility from the Federal Reserve Bank of New York and then from EESA funds under the Systemically Significant Failing Institutions program have been transferred directly to AIG's counterparties in derivatives contracts, including a number of non-U.S.-based banks.[2] According to AIG, 55% of the $52 billion in collateral posted by AIG following September 16, 2008, the date when federal assistance to AIG began, was provided to

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[1] The definition section of the Emergency Economic Stabilization Act of 2008 includes the following definition of "financial institution":

(5) Financial institution--the term ``financial institution'' means any institution, including, but not limited to, any bank, savings association, credit union, security broker or dealer, or insurance company, established and regulated under the laws of the United States or any State, territory, or possession of the United States, the District of Columbia, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands, Guam, American Samoa, or the United States Virgin Islands, and having significant operations in the United States, but excluding any central bank of, or institution owned by, a foreign government.

[2] http://www.aig.com/aigweb/internet/en/files/CounterpartyAttachments031809_tcm385-155645.pdf

foreign banks. Sixty-five percent of $43.7 billion in payments to AIG's securities lending counterparties during the same period went to foreign banks. Maiden Lane III, an entity created by the new Federal Reserve Bank of New York to facilitate government aid to AIG, made 27.1 billion in payments to AIG counterparties, of which 59% went to foreign banks. These banks include Societe Generale and UBS. Societe Generale has been the subject of criticism for its operations in Iran, and UBS has been the focus of a large-scale tax fraud investigation by the IRS, the Justice Department and the FBI.[3]

There are a number of unresolved questions about the uses of EESA and Federal Reserve funds in the case of AIG. Although COP staff has been reviewing documents provided by the Treasury Department relating to AIG, I do not believe that at this time either the documents we have or the publicly available information in this area includes sufficient information to clearly understand how the economic relationship between AIG and its derivative counterparties evolved during the critical month of September, 2008. As a result, it is impossible to express with any certainty an opinion about the implications of the indirect expenditure of EESA funds to benefit non-U.S. AIG counterparties such as UBS and Societe General or provide answers to questions such as: "Was this expenditure unavoidable or in the public interest?" It does not appear that absent the money provided by the Federal Reserve and the Treasury to AIG's counterparties those counterparties would have faced insolvency threats of their own.

Many of the issues associated with the federal government's rescue of AIG are likely to reoccur should the Treasury Department and the FDIC move ahead with the Public Private Investment Partnerships, or PPIP. While final rules have yet to be issued, the Treasury Department's initial description of the PPIP partnerships suggest that it will be possible for non-U.S. investors to participate in the PPIP partnerships. The basic structure of the PPIP partnership is one that assigns disproportionate upside to the investors in the partnerships compared to their capital at risk.

My view is that both the AIG intervention and the PPIP structures are problematic in and of themselves, rather than because foreign investors may benefit or have benefited from these initiatives. Furthermore, the question of whether financial institutions that are supporting terrorism or assisting in tax fraud are benefitting directly or indirectly from EESA should be taken up based on conduct, rather than based on whether such institutions are U.S. based or foreign based.

At a more general policy level, the activities of the Treasury Department, the FDIC and the Federal Reserve raise several questions in relation to the foreign relations of the United States.

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[3] For Societe Generale's operations in Iran see:
http://www.sgcib.com/country_focus.rha?c=country_focus%7Bunid=EE6E304ED6242732C125673F0056AA7D%7D

For UBS's U.S. tax issues see, for example:
http://www.nytimes.com/2009/03/05/business/worldbusiness/05tax.html

1) What is the impact of the approach we are taking to refinancing our banking system on the perception among foreign investors of the strength of our currency, the stability of our Federal Reserve, and the extent to which we have actually dealt with the capital shortfalls in our major banks? Please see in this regard the April Report of the Congressional Oversight Panel.

2) To the extent to which our approach to resolving our banking crisis is succeeding through providing low-cost liquidity and an explicit guarantee to our major banks with an international presence, is this approach causing U.S. banks operating overseas to be perceived as having an unfair advantage over their domestic competitors?

3) Are we seeking to perpetuate the basic international financial arrangements that appear to have contributed to the bubble and the subsequent crisis—namely high degrees of leverage funded by cheap debt that can be only be financed as a by-product of the hoarding of dollars by our trading partners and emerging market nations seeking to protect themselves against currency bear raids?

This week the Bank for International Settlements, in its Quarterly Review stated, "have been associated with tangible improvements in a number of key markets (as noted in this Overview). Ultimately, however, the effectiveness of central bank actions in attenuating the impact of the crisis and restoring the functioning of markets depends on the extent to which they have a catalytic effect on private sector intermediation. Thus the ultimate success of central bank interventions depends on the appropriate design and forceful implementation of policies that address directly the fundamental weaknesses in bank balance sheets."[4]

The seriousness of these questions underlies in part the importance of a thoughtful comprehensive response to the crisis by all the world's major economic powers. The AFL-CIO is involved in a global labor movement effort coordinated by the International Trade Union Confederation, representing over – million workers in – countries, to ensure that working peoples' concerns are heard in the G-20 process. John Sweeney, the President of the AFL-CIO and the Trade Union Advisory Committee to the OECD participates in leading that process.

The global labor movement has urged the governments of the G-20 countries to "put employment and fairness" at the center of governments' response to the crisis. Specifically, that means the global labor movement is looking to all G-20 countries to follow the recommendations of the IMF that all the major economies engage in significant programs of fiscal stimulus. In general, the global labor movement has supported the direction taken by the G-20, in a number of cases following the lead of the Obama Administration. However, the global labor movement also has serious concerns about the vigor with which key initiatives are being pursued, and the question of the

[4] Bank for International Settlements, BIS Quarterly Review, June 2009, pg. 7

ability of the international institutional framework to accomplish the tasks set by the G-20.

Specifically, the global labor movement is concerned that:

(1) financial regulatory reform proposed by the G-20 communique at the international level is too weak and that the Financial Stability Forum is an inadequate institution with insufficient independence from the financial sector to act as a serious regulatory coordinator.

(2) that banks in key countries—the UK, Germany and the United States--are being propped up rather than restructured, resulting in regressive redistribution of wealth and risking a Japanese “lost decade” scenario both in those specific countries and globally, given the role the U.S. and the U.K play in the world financial system;

(3) that the governance of multinational institutions such as the FSF and the IMF, charged with addressing the crisis is both opaque and too narrow in terms of constituencies involved; and

(4) that despite the very positive statements coming out of the London meeting, that the resources committed to fiscal stimulus and job creation are not increasing, while the downward spiral globally is increasing.

More recently, in the aftermath of the London and Rome meetings, the AFL-CIO has been encouraged by the Obama Administration’s efforts to address how to get beyond debt-financed consumer spending in the U.S. as the engine of global growth.

I have attached to this testimony a copy of the Trade Union Evaluation of the most recent G-20 meeting in London.

In conclusion, the measure of whether economic policy in the U.S. and worldwide is successful at addressing the economic crisis is whether real economies are reviving and whether financial institutions are playing their proper role as effective, efficient and stable providers of credit to the real economy. The labor movement globally is united in calling on governments to take effective action in the areas of fiscal stimulus, bank restructuring and financial reregulation.

In the longer run, the global labor movement believes that the G-20 must focus on developing a global economic model that is sustainable and democratic both in its governance and in its results.

Thank you for the opportunity to appear today. Though I do not speak for the Congressional Oversight Panel in general, I think I am safe in saying that the Panel stands ready to assist the Subcommittee in your work, and I am certain that is also true for the AFL-CIO and the global labor movement.

ITUC CSI IGB

TUAC

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

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[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.