

Statement on the G-20 Summit on the Financial Crisis, 15 November, 2008

November 18th, 2008

By the Transnational Institute Working Group on the Global Financial and Economic Crisis

The summit of a selective group of 20 widely diverse countries meeting in Washington moved the discussion of a new global financial architecture a step further, but it was a baby step, not the giant leap that is urgently needed not only to reverse the financial crisis but also to restructure fundamentally the global financial and economic systems. Why was there so little progress?

First, George Bush, representing the country with the largest responsibility for the global crisis, is the lamest of lame ducks. He could not commit his successor to any real course of action. His insistence on free markets reflects a dangerous and outmoded ideology with regard to financial regulation – abundantly demonstrated by his speech prior to the G20 meeting convened in which he re-visited the ideas that are the source of the worst worldwide financial crisis of the past 90 years. These outmoded and discredited ideas were included, unfortunately, in the G20 Communiqué.

Second, this meeting – sometimes called Bretton Woods II - was so hastily put together that unlike Bretton Woods I, its principal outcome was merely to reveal the fault lines of the debate, defined by the U.S. and European positions, although not that of Great Britain. The Europeans, led by president Nicholas Sarkozy of France, argued that since the 1980s, finance has become a quintessentially global phenomenon with money and credit washing across borders. Financial entities are thus able to exploit the inability of nation states to tax or regulate them effectively. Consequently, the Europeans call for a new global financial architecture that starts with, and gives primacy to, new cross-border global financial regulatory authorities. These global institutions are not now in place, must be constructed, and should be the G20's core project for the immediate future. The Europeans note that existing international regulatory institutions, like the Basel Committee on Banking Supervision and the Financial Stability Forum, have very limited membership, cannot issue binding standards and rules, are heavily influenced by the financial lobby, and have proven to

be totally inadequate both in predicting the financial crisis and in acting to stem it.

The United States' counter-argument rests on the nation state, locates the primacy of regulatory authority in national governments, and adds new, cross-border forms of transnational collaboration and coordination. It starts with existing national regulatory regimes, upgrades them considerably, and expands them to encompass new financial instruments and institutions heretofore unregulated. The North Americans argue that this system offers the best tools for the broadest possible political control because it is rooted in national governments – their executives and parliaments, which are themselves subject to popular oversight, however imperfect. Behind these arguments, however, lie both ideology and the desire to protect the U.S.'s and UK's financial sectors' competitiveness as global financial industry centres.

The G20 Communiqué avoids this debate and attempts to diminish the distance between the U.S. and European positions. Several other fault lines emerged at the G20 meeting. Europe wants to go faster, broader, and deeper with new regulations than the U.S. and wants more coordination of policy intervention. The weakness of the G20 Communiqué also indicates that governments are paying more attention to the interests of their financial lobbies than to the interests and urgent needs of their own citizens and citizens worldwide.

Pushing all these divisions into the future and giving the new U.S. administration the necessary space to formulate its own positions, the G20 limited its scope to some broad general principles and an action plan for the next four and a half months that includes only measures that should have been taken long ago to correct the most obvious gaps in transparency and regulation. Whether or not these meagre measures are implemented will depend mainly on how aggressive civil society is in holding the G20 to their limited commitments.

No set of basic but effective principles, guidelines and criteria is yet on the official agenda. We offer four that should be minimum demands in exchange for the unprecedented taxpayer bailouts:

- Total transparency – all financial instruments and all financial institutions to report fully on their activities and this information made available to the public;
- A 10 percent rule – all financial instruments require a minimum 10 percent collateral, capital reserves in order to eliminate the

uninhibited leveraging (sometimes only 1 dollar actually held for every \$30-\$40 lent to borrowers) that is a major source of the meltdown;

- All current and future financial instruments should be brought under the umbrella of financial regulation;
- New national and global regulatory systems to be subject to the widest and deepest democratic participation, including oversight, monitoring, and access to decision-making.

In our view, the global financial implosion is but one of several converging crises caused by government neglect and an ideology celebrating an individualist- based, free-for-all market fundamentalism over the need for civic responsibility. This irresponsible neglect has permeated governing regimes at every level: local, national, regional, and global. Consequently, two other enormous global problems now worsen and converge with the financial crisis: the planetary climate crisis and inequality within and across nations. The same political recklessness that has brought us financial default is also guilty with regard to the global climate and inequality crises of the 21st century.

Furthermore, the financial crisis has now become a crisis of the real economy. The private financial institutions receiving taxpayer bailouts should be obliged to lend to the real economy in order to ease the transformation towards an environmentally robust economy. They must be prevented from further indulging in exotic financial instruments that have greatly contributed to the current worldwide financial meltdown. We support the call for a minimum fiscal stimulus of at least 2 percent of GDP. The earlier anaemic attempts at fiscal stimulus of the G7 were far too small to have any effect.

A more comprehensive integrated set of proposals is therefore needed:

- Closure of tax havens in countries of convenience and attention to other forms of tax evasion that allow global companies and wealthy individuals to avoid their statutory tax obligations in their countries of origin;
- A commitment that no country be allowed to become insolvent;
- Refusal of the nearly bankrupt and discredited IMF as the global dispenser of funds. The failed IMF ideology contributed to this global financial crisis in the first place;
- Integration of southern countries as well as experts from NGOs and other parts of civil society into all discussions of a new global financial architecture;

- Introduction of taxes on cross-border financial transactions – such as the Tobin Tax – that are new sources of tax revenues for government to pay for the financial bailouts, dampen financial speculation, and slow down the turnover of financial transactions in the global economy;
- Limits to the riskiness of any new financial product or instrument, for example, by public governmental certification of a risk assessment of the product before it comes on market;
- Suspension of the financial services negotiations within the GATS section of the Doha Round on trade liberalization. The deregulation and anti-regulation orientation of these negotiations is totally at odds with the premises of the G20 discussions for re-regulation and new regulation of the global financial sector;
- Public disclosure of all lobbyists before national and global regulatory authorities;
- Limits on excess compensation of top level management of financial institutions and elimination of forms of incentive compensation that reward excessively risky behaviour;
- Involvement of global institutions other than the International Financial Institutions discussions concerning the new global financial architecture, including the UN and its appropriate agencies.

The world is not undergoing **a crisis in the system but a crisis of the system** in which the real economy has become subservient to the financial economy. All solutions must be based on this underlying truth. Nothing less than a **Global Round on a Reconstructed Economic Order** is required to address an integrated reform and restructuring of the global economy – including finance, trade, investment, production, corporate codes of conduct, labour standards, systemic risk and environmental regulation. The efforts of the G20 are puny compared to the comprehensive and serious process appropriate to the scale of these converging crises of the 21st century.

by Susan George, Barry K. Gills, Myriam Vander Stichele and Howard M. Wachtel for the TNI Working Group on the Global Financial and Economic Crisis, Amsterdam, 17 November 2008