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OECD HIGH-LEVEL PARLIAMENTARY SEMINAR

THE GLOBAL AND FINANCIAL CRISIS

Paris, Thursday 19th February 2009

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OECD High-Level Parliamentary Seminar

The Global Financial and Economic Crisis

Paris, Thursday 19th February 2009

The OECD organised a High-level Parliamentary Seminar for parliamentary representatives and legislators on the financial and economic crisis at the OECD headquarters in Paris on Thursday 19 February from 9.30 to 17.00.

The world economy is currently facing the most severe financial and economic crisis in decades. The OECD's latest Economic Outlook shows that the world economy is now in recession. The OECD, working hand in hand with emerging economies and other organisations, has a critical role to play in strengthening the global economy.

The OECD is developing a strategic response which aims to address the crisis and seize the opportunity to build a stronger world economy. Its guiding principle is the recognised comparative advantages of the OECD which, for decades, has advised governments and helped coordinate their policies in a cross-cutting way, with very positive results. It focused on two priority areas: (i) finance, competition and governance; and (ii) policies for restoring long-term growth. Background information on the OECD's response to the financial and economic crisis is available on the website. (www.oecd.org/crisisresponse)

This seminar was an opportunity for parliamentarians and legislators to exchange views with their colleagues and OECD experts on the OECD's strategic response to the financial and economic crisis with particular reference to the following issues: corporate governance; taxation; open markets for trade and investment; and the employment and social impacts of the crisis.

OECD High-Level Parliamentary Seminar

The Global Financial and Economic Crisis

Programme

Chair: ***Anthony Gooch,*** *Director, Public Affairs and Communication Directorate, OECD*

9.00 – 9.30	Welcome coffee
9.30 – 9.35	**Opening remarks by the Chair**
9.35 – 10.30	**OECD Response to the Crisis** ***Pier Carlo Padoan****, Deputy Secretary-General, OECD*
10.30 – 11.45	**Social Aspects of the Crisis: Pensions** ***Edward Whitehouse,*** *Principal Administrator, Directorate for Employment, Labour and Social Affairs, OECD*
11.45 – 13.00	**Sovereign Wealth Funds: OECD guidance to recipient countries** ***Kathryn Gordon,*** *Senior Economist, Directorate for Financial and Enterprise Affairs, OECD*
13.00 – 14.30	Lunch
14.30 – 15.45	**Tax Implications of the Crisis** ***Geoff Lloyd,*** *Senior Adviser, Centre for Tax Policy and Administration, OECD*
15.45-17.00	**Corporate Governance and the Crisis** ***Grant Kirkpatrick,*** *Senior Economist, Corporate Governance, Directorate for Financial and Enterprise Affairs, OECD*
17.00 – 17.30	**Conclusions by the Chair**

OECD High-level Parliamentary Seminar
The Global Financial and Economic Crisis

LIST OF PARTICIPANTS

Parliamentarians

Kurt BODEWIG	*Member of Parliament*	**Germany**
Kai Jan KRAINER	*Member of Parliament*	**Austria**
Christoph MATZNETTER	*Member of Parliament*	**Austria**
Konrad STEINDL	*Member of Parliament*	**Austria**
Francois BELLOT	*Member of Parliament*	**Belgium**
Herman DE CROO	*Member of Parliament*	**Belgium**
Roland DUCHATELET	*Senator*	**Belgium**
Rob VAN DE VELDE	*Deputy*	**Belgium**
Dirk VAN DER MAELEN	*Deputy*	**Belgium**
Christiane VIENNE	*Senator*	**Belgium**
Azra HADZIAHMETOVIC	*Member of Parliament*	**Bosnia and Herzegovina**
Sung-duk KOH	*Member of Parliament*	**Korea**
Kook-hyun MOON	*Member of Parliament*	**Korea**
Pedro AZPIAZU URIARTE	*Deputy*	**Spain**
Hilario CABALLERO	*Senator*	**Spain**
Jordi CASAS	*Senator*	**Spain**
Matías CONDE	*Senator*	**Spain**
Sebastián GONZÁLEZ VÁZQUEZ	*Deputy*	**Spain**
Antonio GUTIÉRREZ VEGARA	*Deputy*	**Spain**
Joan HERRERA TORRES	*Deputy*	**Spain**
Alejandro MUÑOZ-ALONSO	*Senator*	**Spain**

Arlette GROSSKOST	*Deputy*	**France**
Konstantinos AGORASTOS	*Member of Parliament*	**Greece**
Evangelos BASSIAKOS	*Member of Parliament*	**Greece**
Ioannis DRAGASAKIS	*Member of Parliament*	**Greece**
Vassilios OIKONOMOU	*Member of Parliament*	**Greece**
Evaggelos PAPACHRISTOS	*Member of Parliament*	**Greece**
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Attila MESTERHÁZY	*Member of Parliament*	**Hungary**
Liam TWOMEY	*Senator*	**Ireland**
Mario BALDASSARRI	*Senator*	**Italy**
Maurizio BERNARDO	*Senator*	**Italy**
Renato CAMBURSANO	*Senator*	**Italy**
Giovanni LEGNINI	*Senator*	**Italy**
Baiba RIVŽA	*Member of Parliament*	**Latvia**
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Eloy CANTÚ SEGOVIA	*Senator*	**Mexico**
Yeidckol POLEVNSKY GURWITZ	*Senator*	**Mexico**
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Derek CONWAY	*Member of Parliament*	**United Kingdom**
Jim HOOD	*Member of Parliament*	**United Kingdom**

Andrew LOVE	*Member of Parliament*	**United Kingdom**
Mark OATEN	*Member of Parliament*	**United Kingdom**
John SEWEL	*Member of Parliament*	**United Kingdom**
Peter VIGGERS	*Member of Parliament*	**United Kingdom**
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Hildegard FÄSSLER	*Member of Parliament*	**Switzerland**
Hans KAUFMANN	*Member of Parliament*	**Switzerland**
Simonetta SOMMARUGA	*Member of Parliament*	**Switzerland**
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Mustafa ELITAS	*Member of Parliament*	**Turkey**
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Ignasi GUARDANS	*Member of Parliament*	**European Parliament**

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Christine HEFFINCK	*Deputy Secretary General for Management*	**NATO Parliamentary Assembly**
Reena PANCHAL	*Co-ordinator, Economics and Security Committee*	**NATO Parliamentary Assembly**
Angus CANVIN	*Administrator, Economic and Monetary Committee*	**European Parliament**
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David BROOM	*Director, Administration and Finance*	**Commonwealth Parliamentary Association**
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Edward Whitehouse	*Principal Administrator, Pensions* ***Directorate for Employment, Labour and Social Affairs***
Geoff Lloyd	Senior Adviser **Centre for Tax Policy and Administration**
Kathryn Gordon	*Senior Economist, Investment Division* ***Directorate for Financial and Enterprise Affairs***
Grant Kirkpatrick	*Senior Economist, Corporate Governance* ***Directorate for Financial and Enterprise Affairs***
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OECD High-Level Parliamentary Seminar

The Global Financial and Economic Crisis

Summary

Around 70 Members of Parliament and more than 30 others attended the High-Level Parliamentary Seminar on the Global Financial and Economic Crisis organized by the Public Affairs division on 19 February 2009. The day-long meeting was chaired by **Anthony Gooch**, Director, Public Affairs and Communications of the OECD. The morning session consisted of an overview of the OECD's strategic response to the crisis, presented by OECD **Deputy Secretary General Pier Carlo Padoan**, a briefing on pensions, given by **Edward Whitehouse***,* Principal Administrator, Directorate for Employment, Labour and Social Affairs, and a presentation on Sovereign Wealth Funds, given by **Kathryn Gordon**, Senior Economist, Directorate for Financial and Enterprise Affairs.

Following lunch, **Geoff Lloyd***,* Senior Adviser at the OECD's Centre for Tax Policy and Administration, discussed the tax implications of the crisis, and the OECD's **Grant Kirkpatrick**, Senior Economist, Corporate Governance, Directorate for Financial and Enterprise Affairs, gave a presentation on corporate governance and the crisis. All of the presentations were followed by a wide range of questions and comments from the participants.

In his opening remarks, **Anthony Gooch** noted that one of the OECD's most important relationships is with parliaments. He acknowledged that the economic crisis has social and political implications, as well, and said that the seminar "couldn't come at a more important moment." Anthony Gooch told the assembled parliamentarians that "raising the profile of the OECD is critical, and you are critical to us in that enterprise."

DSG Pier Carlo Padoan spoke of the four dimensions of the crisis: problems of solvency and liquidity, which require urgent action; the need to remove or isolate toxic assets, and to inject fiscal stimuli; the need to be vigilant against protectionism; and the need to help people remain in the labour market. "The idea is to mobilize OECD resources to contribute to a wide-ranging policy strategy to complement those of other States," he said. The OECD is well-placed to look at several areas of policy making and provide a coherent approach to the response. DSG Pier Carlo Padoan noted that "every day is a new emergency," and that international collaboration is needed to respond.

Questions following DSG Pier Carlo Padoan's talk ranged from the issue of regulations to tax havens to the plight of middle-income countries.

In reply, DSG Pier Carlo Padoan said that "we can't rely on one engine of growth based on household consumption in the US economy with other economies hooked to that." On regulation, he suggested that we need "smart regulation, not more or less regulation," and that regulations should be supervised. On middle-income, emerging countries, DSG Pier Carlo Padoan noted that "they're paying the price of a crisis that was generated elsewhere." He said we have to fix the demand for liquidity and avoid financial protectionism. DSG Pier Carlo Padoan noted that the billions of dollars in toxic assets represent a "classic market failure," and acknowledged that there is still no solution to the problem.

In his presentation on the state of pensions, **Edward Whitehouse** starkly noted that one-quarter of the value of all pension funds across the OECD was wiped out last year, while stock markets fell about 50 percent. He noted that younger workers' retirements will not be affected by the crisis, nor will those of most current retirees. Those who will be most affected are people in their 50s and 60s who have most of their pension in private funds. Edward Whitehouse advised against nationalizing or bailing out private pension funds: "Pension funds don't pose any systemic risk," he said. He also advised not using the economic crisis as an excuse for opening routes to early retirement or weaker disability rules. The public should be made aware of the role of investment risk in retirement income, he said, and added: "When faced with risk, diversify. The best approach is a balanced pension system with a mix of sources of retirement income."

Members of parliament asked Edward Whitehouse whether this was the end of the defined benefit system, what were the implications for younger workers if more people were working longer, and what was the role of the social safety net for retirees.

In his reply, Edward Whitehouse acknowledged that people will want to work longer, and said that the notion that having more older workers will leave fewer jobs for youth was "old lump-of-labour fallacy." He said that younger workers are not good substitutes for older workers, thus there is no trade-off between having older people working and bringing young people into the labour market. In discussing private pensions, Edward Whitehouse noted that in 20 out of 30 OECD countries, private pensions are either part of the mandatory system of pensions or play a large part in individuals' pensions.

Kathryn Gordon's talk on sovereign wealth funds focused on the OECD's work in developing guidelines for recipient countries and in encouraging countries to preserve and expand open markets for sovereign wealth funds while addressing concerns that might arise. Kathryn Gordon said that the guidelines, which address national security concerns, were accepted in a formal, high-level declaration by the countries involved.

Questions for Kathryn Gordon concerned whether and how the guidelines will be applied, foreign investment in natural resources, the role of sovereign wealth funds in bank bailouts, and the health of sovereign wealth funds in the current crisis. She replied that many of the issues that were raised when discussing foreign investment in natural resources are hidden competition issues. She added that, in this climate, competition "is going to be challenging for us all." As for whether sovereign wealth funds are as strong as they were two years ago, Kathryn Gordon replied: "They're doing very badly, just like everybody else."

In his discussion of the tax implications of the crisis, **Geoff Lloyd** suggested several short-term policies that could improve the situation, including income-tax and social-security relief for low-income individuals and corporate tax relief to spur investment. He also recommended revisiting the alignment of tax and regulatory incentives in the future.

Questions ranged from whether there should be more public expenditure and/or tax incentives, to "fiscal shopping," tax evasion, and whether there is an optimal tax rate and, if so, what that would be. Geoff Lloyd said that entering into a debate about optimal tax rates would be like wading in "shark-infested waters," and he declined to answer questions about specific tax solutions. He noted that every year, developing countries channel some two to three times the amount of global development aid into tax havens. Geoff Lloyd said that concerted action against tax evasion and avoidance is "absolutely essential."

Senior Economist **Grant Kirkpatrick** gave a strong presentation on corporate governance. "What we saw last year," he said, "were extraordinary conditions, with everybody looking for a buck. It brings out the worst in a lot of people and organisations." Grant Kirkpatrick focused on the issues of risk management, remuneration, and the role of boards of directors and shareholders. **Chair Anthony Gooch** added that corporate governance is "front and centre" in the OECD's drive to create a cleaner economy.

One parliamentarian commented that it isn't fair that "the people who did this," i.e., the risk-takers who played a part in creating the crisis, are doing well while the poor "are going to pay more for this." Others asked to what extent lawmakers should intervene in corporate governance, and how to encourage shareholders to take an interest in running the companies in which they invest.

Grant Kirkpatrick said the questions went to the heart of many of the problems he is studying. He said that in many cases, regulators knew that risk was building up. "We looked at the trees and missed the forest," he said. He asked rhetorically whether we have regulators with the power, authority and independence to monitor effectively, since they often feel inferior to, and are usually paid much less than, those whom they are regulating. He added that "We can no longer assume that the CEO knows what's going on below."

Better-run institutions, he said, have a risk-management culture in which risk management is integrated throughout the entire enterprise.

In his closing remarks, **Anthony Gooch** encouraged parliamentarians to "watch how we [the OECD] develop our strategic response to this crisis in the coming months." He also asked participants to "help us raise our visibility. We need your support and help in getting our work better known."