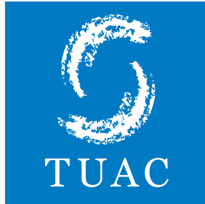

TRADE UNION STATEMENT TO THE "G20 CRISIS SUMMIT"

THE GLOBAL UNIONS "WASHINGTON DECLARATION"

NOVEMBER 2008

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I. Executive Summary

1. G20 leaders are meeting as the global economy is teetering on the edge of a precipice. The spectacular worsening of the financial crisis in September and October 2008 is now having a dramatic impact on the real economy. GDP is forecast to fall and unemployment surge in the major industrialised countries. The crisis is spreading to emerging and developing economies. Already, several governments have had to request emergency loans from the International Monetary Fund (IMF) as their financial sectors become paralysed, capital flows out of the country, currencies collapse and economic growth comes to a standstill. The global economy is facing a very serious recession. How protracted and deep this proves to be depends on how timely and well-focused government action is. This systemic crisis comes on top of the unprecedented rise in food and commodity prices earlier in the year and the resulting food crisis in developing countries. It also occurs against the background of accelerating climate change which, without rapid action, will affect the poorest across the globe most severely, and especially vulnerable groups including women.

2. History has shown that crises on this scale lead to social and political instability with unpredictable and often tragic results. Working families have an enormous stake in the response to this crisis. Already, for more than two decades social cohesion has been under stress as a result of growing inequality in most countries. Today, those who are losing homes, jobs and pensions as a result of the financial crisis, for which they bear no responsibility, as taxpayers are being called on to bail-out those who are responsible. The G20 governments must acknowledge the urgent need to begin work on a more inclusive, just and democratic system for the governance of global markets. Trade

unions must have a seat at the table and be part of the crucial negotiations that will be held in the different institutions, during the months ahead.

3. The current economic crisis began in the US as a conjunction of a housing crisis, a credit market crisis and, increasingly, an employment crisis. Each of these crises is serious enough in itself, but their interaction makes for a particularly complex and dangerous dynamic in the real economy. Housing prices have collapsed, foreclosures have surged and trillions of dollars have been drained from household net worth. Consumers are pulling back sharply as their wealth declines, slowing the economy and forcing employers to shed jobs and cut wages and benefits. The continuing decline of housing prices also aggravates the credit crisis as the value of mortgage-backed assets continues to undermine the balance sheets of under-capitalized financial institutions. Unless the decline in asset prices and employment is halted, the banking system will continue to haemorrhage. This vicious circle is now repeating itself in other industrialised countries and in emerging economies originally thought to be immune.

4. The entry of governments into the financial markets to nationalise banks, guarantee deposits, buy up bad debts and recapitalise the banking systems across the US and Europe, is necessary. However it is unacceptable that governments nationalise the losses of financial capital and let financial institutions privatise the profits. This most serious economic crisis since the Great Depression of the 1930s must mark an end to an ideology of unfettered financial markets, where self-regulation has been exposed as a fraud and greed has overridden rational judgement to the detriment of the real economy. A national and global regulatory architecture needs to be built so that financial markets return to their primary function: to ensure stable and cost-effective financing of productive investment in the real economy. Beyond this governments and international institutions must establish a new economic order that is economically efficient and socially just – a task as ambitious as that confronted by the meeting in Bretton Woods in 1944.

5. The leaders of the major nations meeting in Washington must set in train a process to work with countries beyond the G20, in order to:

- ***Initiate a major recovery plan*** to stabilise global capital markets, move economies rapidly out of recession, stave off the risks of a global depression and get back on the track of creating decent work. There should be further coordinated interest rate cuts as necessary. Governments should bring forward infrastructure investment programmes that can stimulate demand growth in the short term and raise productivity growth in the medium term. Now is the time to move forward with a "Green New Deal" to create jobs through alternative energy development and energy saving and conservation. Tax and expenditure measures should be introduced to support the purchasing power of middle and low income earners. Development assistance budgets need to be maintained to the Least Developed Countries (LDCs) to help meet the Millennium Development Goals (MDGs) with the adoption of binding commitments and a timetable to meet the UN target of 0.7 % of GDP.

- ***Ensure that a financial crisis on such a scale never happens again.*** For two decades most governments, together with the International Financial Institutions (IFIs), have promoted the lightly regulated 'new financial architecture' that has characterised the global financial markets responsible for this crisis. Governments have now been forced to intervene to save the banking system; the quid pro quo must be properly regulated financial institutions. The agenda must cover: the public accountability of central banks; counter-cyclical asset requirements and public supervision for banks; the regulation of hedge funds and private equity; the reform and control of executive compensation and corporate profit distributions; the reform of the credit rating industry; the ending of offshore tax havens; the taxation of international financial transactions; proper consumer protection against predatory lending and aggressive banking sales policy; and active housing and community-based financial service public policies. The new system needs to reflect the requirements of all regulators; bank regulators, tax and competition authorities, and governance and consumer bodies in each country. There must be no more piecemeal approaches to reform.
- ***Establish a new structure of economic governance for the global economy.*** This must go beyond financial markets or currency systems to tackle all the imbalances of growth and capital flows that contributed to the crisis. Just as the post-World War II economic settlements included the strengthening of the International Labour Organisation (ILO), in parallel with the creation of the United Nations, the new post-crisis settlement must address international economic governance. Governments must start work on the necessary structures. But this debate should not be held between bankers and finance ministry officials, behind closed doors. Trade unions must have a seat at the table.
- ***Combat the explosion of inequality in income distribution that lies behind this crisis.*** The new system of economic governance must tackle the crisis of distributive justice that has blighted the global economy. It must ensure more balanced growth in the global economy between regions, as well as within countries, between capital and labour, between high and low income earners, between rich and poor, and between men and women.

6. The G20 meeting should mark the beginning of a process. The agenda for change must be progressed at other meetings in the months ahead; notably at the Follow-up International Conference on Financing for Development, to be held in Doha at the end of the month. At the subsequent Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), being held in Poznan in December, there must be pledges of immediate assistance from industrialised countries to enable more technology transfer and climate change adaptation in developing countries. This would further contribute to establishing the trust that is required to successfully conclude the current climate change negotiations by the end of 2009. The G8 meetings in Italy, as well as the meetings of the IFIs and the Organisation for Economic Cooperation and Development (OECD) in 2009, must all be used to maximum effect – there can be no return to 'business as usual'.

II. A Coordinated Recovery Plan for the Real Economy

7. The mounting financial chaos is taking its toll on the real economy with sharply falling employment in the US and the UK now spreading into the Euro Zone and threatening a global recession. Falls in GDP are forecast for the US and the Euro-zone for most of 2009. Unemployment rates in the OECD are forecast to jump by 20% in the six months ahead, although this may well prove to be an underestimate. In several emerging and developing countries, particularly those with highly leveraged banking systems or running large current-account deficits, massive job cuts are taking place and real household incomes are falling. Capital is leaving many developing countries that can ill afford the loss of investment, and the problems are being compounded by the reduction of remittances by migrant workers, many of whom are also losing their jobs. The ILO has forecast that global unemployment will rise from 190 million in 2007 to 210 million in 2009, with the number of working poor on less than a dollar a day rising by 40 million and those on 2 dollars a day by 100 million.

8. Government leaders and central bankers must not repeat the calamities of the 1930s, with efforts to balance budgets, cut wages and 'beggar thy neighbour' exchange rate and currency policies. Instead the G20 leaders must put in place a coordinated recovery plan targeted at stimulating the real economy nationally and globally.

9. Further coordinated reductions in interest rates by central banks are needed in Europe and the US. Fiscal stabilisers, such as unemployment benefit schemes, must be strengthened and supplemented by direct job creation schemes, where necessary. Fiscal stimuli should target increases in aggregate demand of sufficient magnitude to revitalise the real economy: employment, wage and household disposable income growth. Tax and expenditure measures must be targeted at low and middle income families who are suffering most in the current situation and who, having higher consumption rates, will feed this back into consumption, production and hence employment most rapidly.

10. In developing and emerging countries, governments should similarly counter economic slowdown through monetary policy, by supporting job creation programmes and extending or creating social safety nets. The IFIs must not repeat the errors of the Asian financial crisis a decade ago by pressuring countries to increase interest rates, cutting back government spending and allowing widespread bank failures – the opposite of what industrialised countries are doing today. Instead developing countries should be encouraged to maintain levels of employment and offer government assistance to the most vulnerable sectors of the population.

11. The opportunity should be taken to launch a "Green New Deal", as called for by the United Nations Environment Programme (UNEP) and the ILO in the Green Jobs report. This is the time to aid economic recovery through environmentally responsible investment designed to create jobs in the short-term, including for youth and women, and to reduce greenhouse gas emissions in the medium term. Measures to promote energy saving through retrofitting buildings will be particularly employment intensive, thus supporting the hard-hit construction industry. Public

investment in infrastructure, mass transportation, and alternative energy sources will also stimulate green job creation. Long term and productivity enhancing investment in public infrastructure – schools, hospitals, clean water and sanitation as well as public transport and energy – will not only help national economies to avert or climb out of recession, but will also lay the basis for millions to overcome poverty.

12. Beyond infrastructure, this is also the time to invest in people – in their education and health, and in care for the very young and the aged. 18 million new teachers must be trained just to meet the goal of quality education for all primary age children by the year 2015. Millions more teachers and instructors are needed for vocational education and training for skills that underpin the real economy and for retraining of working people as economies restructure.

13. The new US Administration must introduce a comprehensive plan that combines raising the income of low- and middle-income workers, reinforcing safety nets, including unemployment benefits, an expanded food stamp programme, aid to state and local government with ambitious federal government spending on education and infrastructure. The right to organise must be restored and the US brought into compliance with ILO core labour standards.

14. Japan will be particularly vulnerable should the crisis deepen in Asian emerging economies. The authorities must take measures to rebalance the economy in favour of domestic demand, as current growth relies almost exclusively on exports, hit by the massive appreciation of the Yen. Increases in real wages are now crucial to raise demand and should be backed up by fiscal policy in support of household consumption and to counter growing inequalities.

15. In the EU, coordination of the different fiscal policy initiatives of member states needs to be drastically improved and brought together under an improved mechanism of economic governance. European trade unions have called for the establishment of a European investment fund to promote investment in renewable energies, energy savings, innovation and European infrastructure networks. Investment projects must not be blocked by a misguided application of the Stability and Growth Pact. The European Central Bank (ECB), while active in providing liquidity to stem the banking crisis, mistakenly raised interest rates as recently as summer 2008. The ECB must make a contribution to recovery in Europe and global readjustment by continuing to reduce rates. A Supervisory Board comprising European social partners and members of the ECB's Executive Board should be set up.

16. The recovery packages should also be designed to redress the underlying fundamental economic imbalances that have produced the current crises. These are notably the imbalance between the US and other parts of the global economy, the imbalance between finance and the real economy and the imbalance of bargaining power between workers and their employers. Those economies that have surpluses should redirect them to supporting domestic consumption and productive investment. Trade union rights should be fully respected and promoted so that workers can improve their living standards.

17. A new approach to fiscal responsibility must accompany a global New Deal. The worst error in the current circumstances would be to cut public sector budgets further. There must be a renewed commitment to the provision of publicly financed, quality public services. Rethinking the responsibilities of both the private and public sectors must include responsible resourcing of the public sector through fair taxation and a new commitment to efficiency and the ethical value of quality public services, in which the organizations representing public employees can play a key role.

18. The international community must swiftly expand emergency loans through the IMF and increase assistance from the World Bank and UN agencies to the many developing and emerging countries that are likely to be in situations of balance-of-payments deficits because of the financial crisis and continued high food and fuel prices. The UN's Food and Agriculture Organisation (FAO) estimated that the between 2004 and 2007, the number of undernourished people in the world had increased by 9% to reach 923 million, before the food prices spiked further in 2008. Longer-term overseas development assistance (ODA) must also be scaled up. At a minimum, industrialised-country governments must fulfil the commitments they made at the G8 Gleneagles Summit to increase the level of ODA.

III. Reregulating Global Financial Markets

19. For two decades most governments, together with the IFIs, have promoted the lightly regulated 'new financial architecture that has characterised the global financial markets responsible for this crisis: irresponsible deregulation that favours excessive leverage of financial institutions – including investment banks, hedge funds and private equity – and the 'financial innovation' of securitised credit risk transfers that exported bad debt under the guise of structured products. The business of structured finance created the illusion of low risk, low-cost capital. As the crisis revealed, risks were not spread but hidden. Coupled with 'pro-cyclical' banking accounting rules and rigid capital requirements, the credit crunch that followed the collapse of the structure finance industry created a self-perpetuating, asset depressing process in the banking sector.

20. The interventions made by central banks and governments over past weeks in an attempt to restore confidence, stabilise credit markets and inject new capital are necessary to save the banking system. The banking solvency crisis follows a decade of excessive 'shareholder value' model of corporate governance and corporate short-termism. The money that was wasted in generous dividends, share buybacks and grotesquely large executive compensation packages in the past 2003-2006 'growth cycle' is now badly needed as banks search for fresh money to recapitalise their balance sheets. As large parts of the financial system are being supported by the public taxpayer, trade unions insist that governments take equity stakes and act as activist investors in order to protect the public interest and ensure that taxpayers are eventually reimbursed.

21. Governments continue to talk up the April 2008 recommendations of the Financial Stability Forum (FSF), which cover banks' capital requirements,

risk management policy, oversight of structured products and credit rating agencies. As welcome as these recommendations may be, they can now be seen to be seriously inadequate. Action must be taken to address the tax and regulatory measures that have allowed market makers to take excessive risks.

22. International cooperation must go far beyond what is currently under consideration –reviewing prudential rules for banks and 'encouraging' more transparency. It is the national and global regulatory architecture that needs to be restored so that financial markets return to their primary function: to ensure stable and cost-effective financing of the real economy. The leaders must authorise work to begin on a blueprint for reregulated financial markets, which must include:

- Ensuring that central banks are publicly accountable for their actions and have the necessary mandate to deter and detect speculative financial bubbles;
- Ensuring active supervision, proper counter-cyclical asset requirements and accounting rules for banks and large financial conglomerates;
- Prohibiting all forms of off-balance sheet transaction;
- Submitting foreign investments and capital flows to proper domestic regulation, including observance of internationally recognised governance and transparency standards;
- Promoting community-based financial services such as cooperative and mutual systems and targeted micro-finance schemes negotiated with national social partners;
- Improving consumer protection so as to protect households against predatory lending and aggressive sales policies by banks;
- Enhancing the social purpose of pension schemes to provide decent retirement in both pension funding and investment regulations;
- 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;
- Regulating credit risk transfers, derivatives and futures and addressing the oligopolistic structure of the credit rating agency industry, including by establishing public agencies and developing non-financial sustainability rating;
- Regulating private investment firms such as hedge funds and private equity, and combating regulatory arbitrage within large financial groups and between jurisdictions;
- Adopting controls to limit speculative behaviours in trade exchanges including commodities and energy markets;
- Curbing corporate short-termism by strengthening governance and tax rules on executive compensation, board of directors' responsibilities, risk management and distribution of corporate profits.

23. Strong action is also required to stem the loss of revenues to tax havens. Tax payers cannot be expected to bail out failing financial institutions when the same institutions have used tax havens to avoid paying their fair share of tax. All governments need to take the necessary steps to

protect their revenue base and to offset expected substantial reductions in corporate tax receipts. This will require strengthening the political support for the OECD's work in this area.

IV. A New International System of Economic Governance

24. It is now the time to reshape the global financial and economic architecture through a new set of 'Bretton Woods' negotiations that go beyond the exchange rate regime created at Bretton Woods in 1944. None of the existing institutions has the scope or the credibility to put in place such a structure. Governments must start the work, but the debate must not be held between bankers and finance ministry officials, behind closed doors. Trade unions represent the working families across the globe, who are the victims of the current crisis, and must be present at the table.

25. The institutional reforms must go beyond financial regulation and introduce economic management aimed at reducing the imbalances in the global economy. The persistence of structural current account and exchange rate imbalances within the OECD (particularly between the US, the Euro area and Asia) and imbalances with emerging economies have also contributed to the crisis. Emerging economies' accumulation of dollar holdings – and increasing investment by sovereign wealth funds (SWFs) – has provided much needed equity recapitalisation for badly hit banks and financial institutions. However, risks loom of disorderly adjustments – a brutal reversion of capital flows away from the dollar area in the face of continuing uncertainty in the US. Trade has the potential to boost economic growth, recovery and development, but only under the right conditions. Restoring the public legitimacy of the world trading system and concluding the Doha Round requires simultaneous progress on the enforcement of the protection of fundamental workers' rights through all international institutions, including the WTO, and on ensuring that developing countries are able to achieve economic recovery, employment and future industrial development.

26. Emerging economy and developing country governments must also be a central part of the new governance structure. Global Unions strongly support fairer and more democratic governance structure at the IFIs. In the case of the World Bank, whose mandate is focused on developing countries, there is a need for a deep and systematic reform which must result, at the very least, in parity of voting power between developing and industrialised countries. Both IFIs must also put an end to the economic policy conditionality that has characterised their interventions in developing countries over the past three decades. This has minimised rather than strengthened the application of fiduciary controls and respect for internationally agreed standards, including core labour standards. The deregulation, liberalisation and privatisation conditionalities of the IFIs, in addition to interfering with countries' own policy choices, have frequently led to serious and damaging impacts. This approach must be changed. The normative standards of the ILO, and notably core labour standards, must underpin the new governance system.

V. Combating the Crisis of Distributive Justice

27. Wage stagnation and the lack of purchasing power for working families are both a result of damaging policies and themselves a major factor behind the fall in household savings and the emergence of unsustainable debt that led to the mortgage crisis in many countries. Financial deregulation allowed creditors to promote borrowing against home equity as a substitute for income. Financial bubbles in asset prices, stimulated by excessive leverage and lax rules, substituted for sustainable growth based on shared earnings. There is a need for a new growth regime that – as was the case during the post-war period until the early 1980s – ensures balanced real wage growth in line with productivity increases. Fair responsible and progressive taxation should neither facilitate the accrual of fortunes, nor provide incentives for the pursuit of speculation, but rather contribute to growth.

28. Falling wage shares and growing inequality in two-thirds of the OECD countries have been documented in recent OECD and ILO reports. Governments in the industrialised countries must now begin to encourage and rebuild the institutions that help distribute income and wealth more fairly, as opposed to continuing to call for deregulation of labour markets and dismantlement of workers' protection. The crisis of distributive justice is more strongly apparent in non-OECD countries. Even before the food price crisis of 2007-2008 and the current financial crisis, the World Bank noted that in 46 developing countries out of 59 examined, inequality had increased over the previous decade. The worsening economic situation, on top of the explosion in food prices over the past year, will further accentuate income inequality and add to the deficit of decent work across the developing world, which has already been identified by the ILO.

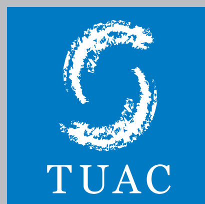
29. We urge the G20 governments to develop further the IMF emergency support for countries facing immediate crises that are beyond their means to resolve. There must be no austerity conditions attached to this support. Rather there should be 'positive conditionality', which assists countries to restore short-term growth, fair distribution of costs and benefits and long-term sustainability. Similarly, the World Bank should give priority to projects that are employment-intensive, extend social safety nets to the majority of developing-country workers currently without protection, and build up public services and infrastructure for sustainable growth. Proposals have to be agreed with workers organisations in the countries concerned. Governments must also agree emergency responses to the continuing food crisis, including action to counter speculation in food markets and to extend emergency support to the poorest. In the medium term, steps should be taken to expand sustainable food production and rebuild buffer stocks. Beyond this, governments must, in the coming months, identify the steps to be undertaken to ensure that they meet their commitments on ODA and the MDGs.

30. We underline the need for G20 governments to take action to strengthen the social dimension of globalisation and to ensure the application of universal standards by multinational companies, wherever they operate. We call on developing and emerging countries to adhere to the OECD Guidelines for Multinational Enterprises, which are consistent with ILO

standards, and for adhering governments to improve implementation by strengthening the National Contact Points and undertaking greater promotion.

VI. Conclusion

31. The international trade union movement has repeatedly denounced the growing divergence 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. 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. 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.



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