L20 Priority Recommendations
Room Document for the G20 Finance Ministers and Central Bank Governors' Meeting
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On the occasion of this G20 Finance Ministers and Central Bank Governors' Meeting, the L20 would like to outline its core views on the next steps regarding the G20 growth strategies, the investment agenda, taxation, financial reform, climate finance and policy coherence towards greater alignment of growth and employment plans.

G20 Action for Comprehensive Growth and Quality Jobs

The G20 committed to raise G20 GDP by 2.1 % above the trajectory implied by current policies over the coming five years. At this point, the G20 is off-target: Global growth projections from main international institutions have yet again been revised downwards. Slowing growth in emerging economies and the appearance of deflation in the Eurozone represent major risks to jobs and living standards. Growth in many economies has stalled due to fiscal austerity and stagnant incomes of working families. The longer unemployment remains elevated or continues to rise, the greater the risk that it becomes "structural" due to scarring effects. On unchanged policies, the global jobs gap will continue to rise and by 2019, more than 212 million people will be out of work, up from 201 million in 2014. The limits to austerity are now demonstrated by the rejection of austerity policies at the polls by the Greek people. Austerity and structural reforms have not solved the problems facing Greece – they have only added new ones.

The L20 is calling for comprehensive measures to boost **aggregate demand and reduce inequality**. The Turkish Presidency by putting inclusiveness high on this year's agenda, raises expectations that policy proposals on fighting income inequality and promoting the integration of vulnerable groups into labour markets will be developed in the upcoming months with concrete benchmark targets and with the help of consultations with the Social Partners.

A fresh approach is needed. **Raising wages** of those on low and middle incomes together with **expanded public investment** is necessary to kick-start growth and to ensure that it is job-rich, inclusive and sustainable for sound long-term economic development. The G20 Labour and Finance Ministers acknowledged the validity of such a strategy at their joint meeting in Moscow in July 2013 comitting to "*labour market and social investment policies that support aggregate demand and reduce inequality, such as broad-based increases in productivity, targeted social protection, appropriately set minimum wages with respect to national wage-setting systems, national collective bargaining arrangements, and other policies to reinforce the links between productivity, wages, and employment*".

The meeting in itself displayed the need for policy coordination between government departments and policy coherence among G20 members. The announcement to hold a **joint Labour and Finance Ministers Meeting** in September is therefore welcome.

Raising growth, creating jobs and shifting to a more inclusive and sustainable path for development requires a balanced strategy that both raises purchasing power and supports productive investment. Economic simulations conducted for the L20 show that a coordinated mix of wage and investment policies could create up to 5.84% more growth in G20 countries – compared to business as usual. The L20 simulations suggest that "***A coordinated policy mix in the G20 targeted to increase the share of wages in GDP by 1%-5% in the next 5 years and public investment in social and physical infrastructure by 1% of GDP in each country can create up to 5.84% more growth in the G20 showing the strong internal demand effects of wage-led***

recovery offsetting any negative effects on net exports or private investment. *"* This could move beyond the 2.1 % target and actually halve the G20 Jobs Gap anticipated to be 64 million in 2018 with unchanged policies. The L20 presented the results in the run up to Brisbane and will refine its proposals in the course of this year. However, the key message that only wage-led growth and an increase in sustainable and responsible investments can bring recovery and close the jobs gap remains valid.

The L20 proposes the following policy actions for the G20 in 2015:

- Review the G20 Growth Plans in regard to urgent measures necessary to enhance aggregate demand to lift growth, include investment targets in national growth and jobs plans and assess the long-term impact of such strategies on living standards;
- Commit to raising low and middle incomes to reduce inequality and to inject purchasing power into the real economy;
- Bring forward public investments in infrastructure that create jobs and improve long-term productive potential by supporting the transition to a low-carbon economy that can generate green and decent jobs;
- Address regulatory and market barriers that prevent institutional investors – including workers' pension funds – from engaging long-term investment strategies, mainstream responsible business conduct by investors and ensure accountability and transparency of financial intermediaries, asset managers and bankers;
- Work towards internationally harmonised principles for structural reform of banking to shield retail banking from volatile trading and investment banking risks;
- Take steps to increase transparency and inclusiveness in the OECD BEPS Action Plan;
- Shift to targeted structural policies that lead to skills development and innovation, while ensuring social protection and public services;
- Reduce precarious employment and promote inclusive labour markets by boosting activity rates of vulnerable groups, notably women, young people and minority ethnic communities, including through investment in the care economy enabling child care, aged care, health and education support;
- Support youth employment by introducing youth guarantees and comprehensive youth strategies, including quality vocational training and apprenticeships, as called for by the L20 and B20, and by increasing investments in quality public education.

Such a policy package would have the support of working people.

Step up the Momentum on Taxation and Financial Regulation

The L20 supports the OECD Action Plan on Base Erosion and Profit Shifting (BEPS) to curb tax avoidance by multinational enterprises (MNEs) and the commitment to automatic exchange of information between tax authorities to curb tax evasion. The G20 Finance Ministers are expected to adopt the OECD Country-by-Country tax reporting framework (BEPS Action n°13). The stakeholder-dimension of tax reporting is of crucial importance. Issues related to tax compliance by MNEs should not be restricted to bilateral exchanges between companies and tax authorities. Provided that confidential requirements are met, the process should also extend to a wider group of stakeholders including worker representatives, shareholders that have a long term interest in the performance of the company, and relevant civil society organisations. While some progress has been achieved to increase the participation of developing countries, the inclusiveness of the BEPS process should be further improved.

The L20 is calling on the G20 Finance Minsters to:

- Take measures within the BEPS Action Plan to increase public transparency over corporate tax reporting;

- Mobilise financial resources and institutional capacities to help both civil society and tax administrations in developing countries to participate in the process.

Progress on **G20-agreed financial reforms** is too slow. A prime concern is the low level of ambition in tackling “too-big-to-fail” banks through effective structural measures. Structural reforms of the banking sector were under consideration by the G20 and the Financial Stability Board (FSB) in 2009-2010. It was however dropped and only re-appeared on the G20 agenda at the G20 Summit in Saint Petersburg. This has led to lack of coordination between regulatory measures in the United States (Volker rule) and in Europe (Loi Bancaire, Vickers reform, Barnier Proposal).

The G20 should also adopt **a more comprehensive approach on tax and finance**. This is still far off. The tax treatment of the financial sector – banking, shadow banking and private pools of capital – is creating complications for the effective implementation of the BEPS Action Plan, including on “treaty abuse” (Action n°6), hybrid mismatch (n°2) and interest deductions (n°4).

The L20 is calling on the G20 Finance Ministers and Central Bank Governors to:

- Work towards internationally harmonised principles on banking structural reform to shield retail banking from volatile trading and investment banking activities;

- Take concrete steps to increase coordination between the FSB Work plan and the OECD BEPS Action Plan and ensure that aggressive tax planning and tax evasion within the financial sector are effectively tackled.

Promoting Long-Term Responsible Investment

The G20 has taken a leadership role in mobilising institutional investors for long term investment. In this regard, workers’ pension funds have a central role to play given their long term liabilities and investment horizons. The G20 infrastructure agenda is paying particular attention to the use of public money in “leveraging” private finance. However, this must be priced appropriately and managed transparently so that profits and gains are not privatised, while deficits and losses are socialised. It should moreover not prevent the sustained development of the universal access to public services. Beyond that, the G20 should help institutional investors deliver patient, productive and engaged capital in a responsible way, while at the same time shifting away from short-termist and speculative trading behaviour.

The L20 is calling on the G20 Finance Ministers to orient the long term investment agenda toward:

- Mainstreaming responsible business conduct by institutional investors, promoting leadership through collectively organised retirement plans, and by ensuring accountability and transparency of asset managers and bankers;

- Setting strict rules for fair and transparent risk-sharing arrangements, job creation targets and decent work standards whenever public money is used to support private infrastructure projects, and commitment to preserving and sustaining universal access to public services.

Take Action on Climate Change and Green Growth

The G20 Finance and Economy ministers are in a unique position to pave the way towards an ambitious and fair outcome to the multilateral climate negotiations in Paris this year by:

- Supporting the rapid disbursement of funds into the Green Climate Fund, as pledged in 2014, and the development of carbon taxation schemes and climate-sound investment bonds as a means to provide long-term options for responsible investors;

- Integrating considerations on potential impacts of climate change when planning new investments, infrastructure development and industrial policies;

- Committing to developing Just Transition policies so that workers are accompanied in the massive transformation needed in all sectors and jobs with new decent work opportunities, social protection, new skills, among other policies.

Ensure Policy Coherence and Implementation

There is a clear need to set-up mechanisms that ensure **greater coordination** between government departments to move towards more policy coherence among G20 members with the help of international organisations, and in particular the OECD, the ILO and social partners, and through greater collaboration between the G20 Employment Working Group and the Finance Track.

Ensuring timely and effective **implementation and monitoring of past commitments** is critical in enhancing the G20's legitimacy to deliver tangeable policy outcomes. The mandate given to the OECD and IMF to initiate an accountability framework is a positive step in this direction. However, the process needs to entail consultations with other stakeholders to ensure a balanced approach.

The L20 will particularly focus on the follow-up on commitments on job creation, the 25 by 25 gender initiative, infrastacture investments, quality apprenticeships and tax rules (through the BEPS process). The L20 Tracking of 2014 showed that the majority of G20 policies did not have a positive impact on working people and were unbalanced. The G20 bears responsbility to achieve inclusive and green growth that is beneficial for well-being in societies, and only then public trust in political leadership can be restored. Therefore, inputs from outreach groups and the L20 should be seriously considered, in particular when it comes to economic modelling projections and practical advice on policy reforms.