

Put People First

Ensuring a response to the economic crisis that delivers democratic governance of the economy for:

Jobs: Decent jobs and public services for all
Justice: End global poverty and inequality
Climate: Build a green economy

Executive Summary

The global financial and economic system is in crisis. Existing economic policies and institutions have overseen an economic system scarred by high levels of poverty and inequality, which is contributing to an environmental catastrophe.

Blind faith in the virtues of markets, and inadequate public control, regulation and accountability of finance are at the heart of the financial crisis. Before the financial crisis, people across the world and in Britain were already suffering from the effects of rising food prices, inadequate essential services and the threat of climate chaos.

There can be no return to business as usual. Fundamental change is needed.

This paper is the result of an unprecedented collaboration between a wide spectrum of civil society organisations with millions of members from across the nation. We call on the UK government to show its commitment to putting people first by signalling an historic break with the failed policies of the past, and the start of a new system that seeks to make the economy work for people and the planet.

We call on the government to prioritise the essential changes listed below, as the first step towards building this new system.

Put People First: Ensure democratic governance of the economy

1. Compel tax havens to abide by strict international rules.
2. Insist on fundamental governance reform of the World Bank and International Monetary Fund (IMF).
3. Make all financial institutions, financial products and multinationals transparent and publicly accountable.

Jobs: Decent jobs and public services for all

4. Ensure a massive investment in a *green new deal* to build a green economy based on decent work and fair pay.
5. Invest in and strengthen public provision of essential services.
6. Work to ensure sufficient emergency funding to all countries that need it, without damaging conditionalities attached.

Justice: End global poverty and inequality

7. Deliver 0.7% of national income as aid by 2013, deliver aid more effectively and push for the cancellation of all illegitimate and unpayable developing country debts.
8. Ensure that poorer states are allowed to take responsibility for managing their economies, including controlling cross-border capital flows.
9. Stop pushing developing countries to liberalise and deregulate their economies, and do not attempt to rush through a completion of the Doha trade round, a deal that developing countries have rejected several times.

Climate: Build a Green Economy

10. In addition to the green new deal (recommendation 4), introduce the robust regulatory requirements and financial incentives needed to deliver a green economy.
11. Push for a deal at Copenhagen to agree substantial, verifiable cuts in greenhouse gases, which will limit temperature increases to well below 2°C.
12. Commit to substantial new resource transfer from North to South, additional to Overseas Development Assistance (ODA), to support adaptation and sustainable development in poor countries.

These recommendations provide an integrated package to help world leaders chart a path out of recession. Creating a fair, functioning global economy means rapidly addressing climate change. Building a low-carbon economy requires massive public investment in decent green jobs and public services. A new green deal cannot be financed without significant tax reforms. Democratic, transparent and accountable financial institutions are necessary to deliver the changes required.

The first step will be a transparent and accountable process for reforming the international financial system. This will require the consultation of all governments, parliaments, trade unions and civil society, with the United Nations (UN) playing a key role.

We call on the UK government and other countries to seize this opportunity to start building an economy that puts people and the planet first. The policies set out in this paper offer the essential building blocks for undertaking this transformation.

Introduction

Existing economic policies and institutions have failed to deliver stability. They have overseen an economic system scarred by high levels of poverty and inequality, which is contributing to an environmental catastrophe that will also cause massive economic damage. The notion that ‘the market always knows best’ has been shown to be fundamentally flawed.

The global economic recession caused by the financial crisis will cost millions of men and women their jobs and livelihoods. In Britain, unemployment is already approaching two million,¹ and forecasters expect this figure to rise to over three million or even higher by 2010.² The best estimates are that the number of people living below the global absolute poverty line of \$1.25 per day will rise by over 200 million.³

Before the financial crisis, people across the world and in Britain were already suffering from the effects of rising food prices, inadequate housing and other essential services, and the threat of runaway climate change. As always, the poorest suffer most, particularly women. However, this crisis also threatens to damage the lives of those on middle incomes, and will harm living standards in rich as well as poor countries.

It is time to put people first:

- To rebuild our economies so they finally deliver decent jobs and public services for all.
- To eradicate the scourge of global poverty and inequality.
- To build a green economy that preserves our global commons and the natural life-support systems of the planet, prevents runaway global warming and ensures a safe, clean environment for our children.

Putting people first also means reasserting democratic control over the policies and institutions that guide our economy at global, regional and national level, and making sure companies are accountable for their actions. This is not just a task for international officials or financial experts; it must involve us all. The market must be made to work for the many, not just the few. This requires government action, regulation, and oversight, with democratic accountability.

The first step will be to ensure that the process for reforming the international financial system is transparent and accountable, with consultation of all governments, parliaments, trade unions and civil society, with the UN playing a key role.

This paper is the result of an unprecedented collaboration between a wide spectrum of civil society organisations with millions of members from across the nation. It sets out practical steps that the UK government should take to signal its readiness to lead a

¹ The Office for National Statistics figure for December 2008 was 1.97 million.

² The Confederation of British Industry (CBI), the Trades Union Congress (TUC), Ernst and Young and Item Club have all forecast over three million unemployed by 2010.

³ International Labour Organization: *Global Employment Trends Report 2009*.

process of fundamental change to put people first: to deliver decent jobs and public services, global justice and a green economy.

1. Put People First: Ensure democratic governance of the economy

Blind faith in the virtues of markets, inadequate public control and regulation of finance, lack of transparency and accountability of financial institutions, and the secrecy provided by offshore financial centres are at the heart of this crisis.

Governments, national regulators and international financial institutions failed to do their job. Ideologically driven policy-making, which assumed that the market always knew best, allowed the development of a culture of secrecy and the proliferation of complex and 'innovative' financial products and practices. These have proved highly damaging. Uncoordinated and floating exchange rates, and the massive balance of trade deficits and surpluses accompanying them, have encouraged speculation, instability and inequality in the global economy over the last 30 years.

Fundamental change is needed

Two basic principles should guide all reforms. First, financial institutions must be held accountable publicly and transparently; and financial institutions, markets and products must be adequately regulated to ensure that they support a sustainable fair economy. Second, governments must cooperate to prevent a regulatory race to the bottom, and to ensure that rogue jurisdictions cannot undermine efforts to regulate, tax and hold accountable all financial institutions and multinational companies.

Significant changes are needed in the way the global economy is managed, with fundamental reform of the governance of international financial institutions, including the World Bank and the IMF. Voting weights should recognise shares of population, and citizens, both women and men, must be able to hold these institutions accountable and voice their concerns. One first step for the current round of World Bank governance reform will be to ensure that developed and developing countries have a parity of voice and vote. These institutions must alter policies and behaviour to fully respect international standards on human rights, the environment and labour. Strengthened UN oversight over the management of the international economy is needed.

Major changes to the financial system are also needed if it is to play its role of supporting a fair, sustainable economy. Four priorities are clear. First, the 'shadow' banking system must be removed so that all institutions and products, including investment funds such as hedge funds, sovereign wealth funds and over-the-counter products, become properly regulated.

Second, damaging speculation should be limited by controlling derivatives trading, credit securitisation and other complex financial instruments in a globally coordinated way. Rules must be formulated to discourage or ban short-term, non-productive or damaging investment, while promoting longer term socially productive and environmentally sustainable investment. The inflated bonus culture must be tackled.

Third, tax havens must be compelled to cooperate to lift the veil of secrecy that allows firms and individuals to avoid international standards, and that makes illicit capital flight and tax evasion possible. They should be compelled to abide by strict international rules, and place all data on beneficial ownership and trading of entities registered in their domains on public record. This will also help efforts to combat money-laundering and other criminal activities. Transition measures will be needed to help small economies that have become economically dependent on their tax haven status to diversify and adjust.

Fourth, multinational companies must be compelled to report in a transparent and accountable manner. This will include introducing country-by-country international accounting standards to disclose profits made and taxes paid in each country, and making governance arrangements, human rights, social and environmental assessments part of the listing and reporting requirements for all multinationals. Investors should follow the UN Principles of Responsible Investment and include social, environmental and governance risk assessment in their investment practices. When UK companies operate abroad they should be held to account if they breach international human rights and environmental standards, for example, through the creation of a UK Commission for Human Rights, the Environment and Business.

Recommendations for the UK government

The British government can signal its commitment to democratising economic governance by supporting the following key actions in the UK, the European Union (EU) and at international levels:

1. Tackle tax havens, particularly those with strong connections to the UK such as Crown Dependencies and UK overseas territories, by compelling them to abide by strict international rules and participate in systems of automatic exchange of information.
2. Insist on fundamental governance reform of the World Bank and IMF, to ensure that they are properly democratised, and made fully transparent and accountable, and respect international standards on human rights, the environment and labour.
3. Make all financial institutions, financial products and multinational companies transparent and publicly accountable. This will include removing the shadow banking system through proper regulation, introducing country-by-country international accounting standards, and making governance and social and environmental impacts part of listing and reporting requirements for multinationals.

2. Jobs: Decent jobs and public services for all

We need a recovery plan that defends jobs, mitigates the human cost of the crisis and protects the poorest, while protecting the planet.

Developed and developing countries must use the funds at their disposal to enable them to stimulate their economies, protect jobs and livelihoods, and provide social protection schemes to support poor people, in the North and South. Where necessary, they should be provided with emergency funds by the international community. It is

the poor who are bearing the brunt of the crisis, and it should not be forgotten that 70% of the poorest people in the world are women.

In the UK, schemes to prevent unemployment, and to get the unemployed rapidly back to work through improved training, support for viable companies in crisis and the expansion of government led projects to provide work and help build a green economy, will be particularly important.

Developing countries must be given the emergency funds necessary to pursue the kinds of counter-cyclical policies currently being used by rich countries. This should be done without the economic policy conditionality that has characterised interventions in developing countries over the past three decades. Insisting on deregulation, liberalisation and privatisation has interfered with domestic decision-making processes, has frequently led to serious and damaging impacts on poverty and the environment, has undermined core labour standards, and has contributed to the spread of the financial crisis. Funding is needed to mitigate the immediate impacts of the global economic crisis, especially on poor and economically vulnerable people, including through social protection programmes.

Governments should use the investments they are making in response to the economic crisis to rebuild a low-carbon economy, based on justice and equality. A ‘green new deal’ is needed to create decent employment, offer extended social safety nets to workers, build public services and invest in green infrastructure for sustainable development. Governments should bring forward green infrastructure investment programmes that can stimulate demand growth in the short term and raise productivity growth in the medium term. New jobs can be created in green construction, green energy, green transport and green financing. Private savings and pension funds can also be incentivised to be at the heart of funding a green new deal. The principle of ‘just transition’ is essential to protect the living standards and well-being of those at risk of unemployment or those who face a reduced income as a result of the shift to a green economy.

Governments should invest in and strengthen public provision of essential services to ensure universal access to education, basic health care, water, sanitation and housing, and to increase secure jobs and pensions within the public sector. In the context of the financial crisis, the role of private finance and reduced social provision in housing markets has been a key factor, prompting insecurity and indebtedness for low and middle-income earners. It is therefore imperative that we work towards universal achievement of the human right to adequate housing. Governments in the North should create jobs in the construction industry by investing in ecologically sustainable social housing to meet historic, current and future need. Governments in the South must be supported to do the same.

Recommendations for the UK government

4. Ensure a massive investment in transformative action to deliver a low-carbon economy and push other developed countries to do the same. A green new deal is needed to create jobs based on decent work and pay through alternative energy development, sustainable transport systems, and energy saving and conservation. This shift to a low-carbon economy must be a ‘just transition’ based on democratic involvement of those groups most affected by that shift.

5. Invest in and strengthen public provision of essential services to meet universal human rights, including by massively increasing public investment in ecologically sustainable social housing.
6. Work to ensure sufficient emergency funding to all countries that need it to enable them to stimulate their economies, protect jobs and provide social protection, without damaging conditionality attached.

3. Justice: End global poverty and inequality

The international political and financial system needs to be restructured so that all countries have the space and resources they need to invest in public services, human security and sustainable development. International cooperation will be needed so that national efforts at social protection are not undermined. Renewed efforts to achieve and exceed the Millennium Development Goals (MDGs) are an urgent priority.

Meeting the 1970 aid pledge of 0.7% of Gross National Income (GNI) is now more important than ever. Governments in the North should accelerate their increases, and deliver better aid. Meeting these long-standing aid commitments will require only a tiny percentage of the huge sums used to bail out the banking system.

Servicing unjust and unsustainable debts has eroded developing countries' control over their economies in recent decades. A comprehensive, fair and transparent international debt workout mechanism is needed to deal with sovereign debts and prevent future debt crises. Illegitimate and unpayable developing country debts that have either accrued through irresponsible lending, or that are repayable only at the cost of the basic rights of the people in the borrowing country must be cancelled.

There is a need for a new economic regime that ensures balanced real wage growth in line with productivity increases, whilst respecting the ecological limits of the planet. It must ensure fairer, sustainable growth in the global economy to reduce inequality 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. Fair, responsible and progressive taxation should curb excessive inequality, remove incentives for the pursuit of speculation, and contribute to sustainable development. Internationally, oversight and far greater transparency could be provided through new taxes, particularly in the foreign exchange market, in order to control damaging short-term speculation on currencies and to raise funds for development and climate change adaptation.

Attempts by world leaders to use the global recession as a spur for greater trade liberalisation through a conclusion to the Doha Round of the World Trade Organisation (WTO) or through bilateral and regional free trade agreements must be reassessed. The UK and all world leaders must take this opportunity to step back and develop a fresh approach to the global trading system that prioritises justice and equity, including labour and environmental standards. This approach should build economic relationships fit to deal with the financial, climate and food crises of the 21st century. This new approach to global trade must work in the interests of people

and environment whilst strengthening local and regional supply chains and ensuring dialogue and cooperation at international level.

Recommendations for the UK government

7. Honour the commitment to deliver 0.7% of national income as aid by 2013 at the latest, deliver it more effectively and push for the auditing and cancellation of all illegitimate and unpayable developing country debts.
8. Ensure that poorer states are allowed to take responsibility for managing their economies. In particular, they may need to control cross-border capital flows, and should not be penalised or discouraged from doing so.
9. Stop pushing developing countries to liberalise and deregulate their financial services industries, alongside industrial, agricultural and wider service sectors, via the WTO or EU regional and bilateral trade negotiations. There should be no attempt to rush through a conclusion to the WTO Doha Round – a deal that developing countries have rejected several times due to concerns at the potential impact on their economies.

4. Climate: Build a Green Economy

We need management and regulation of the economy, at national, regional and global levels: to ensure that environmental services are fully valued; to promote equity for all nations and the protection of fundamental economic, social and environmental rights for all; and to avoid short-term profit being prioritised ahead of long-term sustainability.

Even before the current crisis, the demands of the global economy have led us dangerously close to the planet's environmental limits. Ever increasing levels of consumption have eaten into our ecological capital. This trend will continue unless we divert from a 'business as usual' approach. Inequitable distribution of wealth and consumption has compounded this problem. Three to five planets would be needed if everyone on earth were to consume as much as an average person in a developed country. Meanwhile, the poorest consume the least but suffer most from the impacts of climate change. The economic costs of inaction are unthinkable. Conservative estimates say doing nothing about climate change will cost the world economy at least 5% of Gross Domestic Product (GDP) each year, and potentially more than 20%.⁴

Until now, economic development has been accompanied by the accelerating accumulation of human-made greenhouse gases in the atmosphere and the risk of runaway climate change. The unprecedented scale of public investment made across the world in response to the financial crisis provides a major opportunity to prevent catastrophic climate change, if it is focussed on facilitating the required cuts in emissions globally, and helping developing countries to adapt.

The rich countries of the world have built their economies on the back of ever increasing greenhouse gas emissions. These countries have a moral obligation to ensure that those who will feel the greatest effects of climate change – poor countries and the poorest people, the majority of whom are women – have the financial and technological resources to enable them to pursue their paths to sustainable

⁴ Stern Review: *The Economics of Climate Change*, 2006.

development, whilst adjusting to the inevitable impacts of climate change and restructuring their economies to respond to a low-carbon world. A commitment is urgently needed to provide sufficient, substantial, measurable, verifiable and reportable new resource transfer from North to South, additional to ODA, to support resilient adaptation and sustainable development in poor countries. The UN estimates that over \$80 billion per year will be needed for adaptation alone.⁵ Better and more coherent governance arrangements for climate finance are needed, which make the UN Framework Convention on Climate Change central.

At Copenhagen, governments of developed countries must agree substantial domestic cuts in carbon dioxide (CO₂) and other greenhouse gases to meet the imperative of keeping global average temperature increases as far below 2°C as possible. These cuts must respect principles of social justice, as well as being measurable, verifiable, reportable, and met by reducing domestic emissions. The Intergovernmental Panel on Climate Change (IPCC) estimates that - even to achieve a temperature rise of between 2-2.4°C - cuts in the range of 25-40% below 1990 levels by 2020 would be needed.

Experience has shown that an over-reliance on free markets and a commitment to low levels of regulation will not lead to the changes required to build a fair and sustainable economy. Market-based mechanisms, including carbon markets, need to be overhauled if they are to have a role to play in delivering the required transformation in the global economy. Governments need to intervene to a much greater level than has previously been the norm to address market failures, including through regulation.

Recommendations for the UK government

10. In addition to ensuring a massive investment in transformative action to deliver a low-carbon economy (recommendation 4), create robust regulatory requirements and financial incentives at national level and push for them at international level to create a green economy.
11. Demonstrate global leadership by pushing for a fair and adequate global deal at Copenhagen to agree substantial, verifiable cuts in greenhouse gases, with rich countries leading the effort, which will limit global average temperature increases to well below 2°C.
12. Commit to sufficient, substantial, verifiable new resource transfer from North to South, additional to ODA, to support resilient adaptation and sustainable development in poor countries.

Conclusion

These recommendations provide an integrated package to help world leaders chart a path out of recession. Moving towards a fairer global economy cannot happen without addressing climate change; a transition to a low-carbon economy cannot happen without massive public investment in decent green jobs and public services; a new green deal cannot be financed without significant tax reforms; and a shift towards democratic, transparent and accountable financial institutions is necessary to deliver the changes required.

⁵ United Nations Development Programme: *2007/2008 Human Development Report. Fighting climate change: Human solidarity in a divided world*, 2007.

The starting point for change must be understanding and acceptance. Understanding that an unfairly regulated global economy has increased vulnerability for the world's poor, threatened jobs and livelihoods globally, created financial and social instability, undermined public service delivery, wreaked havoc upon the biosphere and ultimately damaged the fabric of the economy itself. Acceptance that governments must rediscover their role in proactively delivering an economy that is fair and just, and that lives within its environmental means.

The purpose of government is to defend and enhance the personal, social and economic security of its people. The purpose of an economy is to enable the greatest number of people to meet their material needs over the long term, without compromising the ability of future generations to meet their needs. Continuing with a financial model that primarily services the short-term greed of a few at the expense of the long-term job and livelihood security of the many, and of the planet as a whole, would be a betrayal of the principal role of both governments and the economy.

The organisations backing this proposal represent millions of people across Britain who believe that tinkering at the margins of a broken economy will not get us out of the current overlapping crises of massive private debt, banking meltdown, rising poverty and unemployment and looming climate chaos.

We call on the UK government and other countries to seize this opportunity to start building a global economy that puts people and the planet first. The policies set out in this paper offer governments the essential building blocks for undertaking this transformation.