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# TRADE UNION STATEMENT\* TO THE ST ANDREWS G20 FINANCE MINISTERS' MEETING

(7-8 NOVEMBER 2009)

## Introduction - G20 Finance Ministers must build on Pittsburgh

- 1 The Pittsburgh G20 Summit made important commitments to maintain the stimulus and prioritise jobs. In the subsequent weeks it has become clear that, for the major economies, recovery is remote and the situation of the global economy remains fragile. Moreover progress at Pittsburgh was limited in other crucial areas including climate change, financial regulation, development and governance reform. The trade union movement therefore calls on the G20 Finance Ministers meeting in St Andrews to:
- Reinforce coordinated fiscal stimulus in the G20 countries with a stronger focus on job protection and creation and a key role for the ILO in the G20 Framework for Strong, Sustainable, and Balanced Growth;
  - Commit to substantial financial commitments for climate change action in developing countries and investing in green jobs;
  - Agree on an expeditious timetable for far-reaching enhanced financial regulation ensuring that banks and other financial institutions resume their primary function, namely financing the real economy;
  - Build a balanced global economy with transparent, accountable and democratic institutions, open to dialogue with trade unions and other civil society institutions and able to protect developing countries against crisis and market volatility.

## Jobs – an Overarching Priority: in the recovery, in exit strategies, and in the G20 Growth Framework

- 2 G20 countries must respect their Pittsburgh commitments to maintain coordinated stimulus actions “until the global economy is restored to full health and hard-working families can find decent jobs” (preamble, #9). The global economy remains in deep recession and the outlook fragile. In this regard, the mandate for G20 Finance Ministers to “developing cooperative and coordinated exit strategies” to unwind the fiscal stimulus must await tangible proof of recovery in the form of a reduction in current

\* This statement has been endorsed by the International Trade Union Confederation (ITUC), representing 170 million workers in 158 countries, and the Trade Union Advisory Committee (TUAC) to the OECD, representing some 66 million workers in 30 countries,

unemployment levels. G20 Finance Ministers must ensure the burden of any subsequent tax increases is shared equitably and not placed on the backs of those paying for it already through lower wages or higher unemployment, nor financed by reductions in badly needed social services.

- 3** The St Andrews G20 Finance Ministers meeting has been mandated by the Pittsburgh G20 Summit to oversee the launch of a peer review process through a new “G20 Framework for Strong, Sustainable, and Balanced Growth”, providing for shared responsibility to run sound and mutually compatible policies and “actions to meet our common objectives” (#6). In this regard, a major role has been given to the International Monetary Fund (IMF) yet without any signs that its long-standing orthodox policy approaches and its imposition of pro-cyclical policies have been reversed. This creates a serious danger of the Framework coming to constitute an IMF-administered straitjacket that would actually prevent governments from taking effective measures to attain high growth and employment with good quality social policies. It is essential that G20 Finance Ministers stipulate the need for the IMF to end its current inequality-creating structural adjustment conditionality and allow all countries the policy space to pursue effective stimulus programmes instead. Governance reforms are required at both the IMF and the World Bank to open up to civil society and trade unions with a formal trade union advisory structure, and to give developing countries greatly increased representation on their Boards. G20 Finance Ministers should furthermore ask the IMF and the World Bank to prioritise counter cyclical aid programmes to help developing countries cope with the impact of the crisis.
- 4** Furthermore, the ILO must be designated as the agency responsible for the employment aspects of the peer review process of the G20 Framework for Strong, Sustainable, and Balanced Growth, not the IMF which has no mandate to produce recommendations in this area. G20 Finance Ministers need to allocate resources to implement “recovery plans that support decent work, help preserve employment, and prioritise job growth” (#43), as decided in the Pittsburgh G20 Leaders’ Statement, and hence to ensure that greater focus is placed on maintaining and creating jobs, providing adequate social protection and training opportunities and investing in the green economy. Ministers should also confirm adequate funding to achieve the integration of young people into the labour market as young workers have been particularly hit by the crisis.
- 5** The G20 Labour Ministers’ meeting in early 2010 to address the employment impact of the crisis needs to be prepared carefully through the establishment of a G20 Working Group on Employment to engage in its preparation and its follow-up. The input of employers’ and workers’ organisations is essential in this process of employment and recovery discussions, and they need to be involved comprehensively both at national and international level in the run up to and following the Labour Ministerial, as well as taking part in the meeting itself. The Labour Ministerial will need to consider reports from the ILO regarding employment policies and in particular the ILO Global Jobs Pact adopted in June 2009, in line with the Pittsburgh commitment of Leaders to “commit our nations to adopt key elements of its general framework to advance the social dimension of globalisation” (#46). Follow-up is needed to the meeting of

OECD Employment and Labour Ministers on 28-29 September, including through enhanced cooperation between the ILO and OECD.

### **Climate Change: St Andrews is the Time to Commit**

- 6** The St Andrews G20 Finance Ministers Meeting was given a mandate by the Leaders in Pittsburgh to establish “a range of possible options for climate change financing”. Yet time is fast running out before the meeting of the Conference of the States Parties (COP15) to the United Nations Framework Convention on Climate Change in Copenhagen in December 2009.
- 7** It is essential now that G20 Finance Ministers make concrete commitments both to providing the Euro 200 billion of public funds that are required to support adaptation by developing countries for the period 2013-2017, and to provide adequate financing towards the costs in industrialised countries through investment in promoting Green Jobs, as well as endorsing the concept of ‘just transition’ so as to protect workers in the shift towards a ‘green economy’. Thereby G20 Finance Ministers can pave the way for an ambitious agreement at COP15, one that encompasses binding commitments for Greenhouse Gas (GHG) emission reduction in developed countries combined with effective action for achieving GHG emission reduction or controlled increases to bring about low carbon development in developing countries.

### **Rebuilding Momentum to Reform the Financial System**

- 8** Building on the previous G20 Finance meeting in London, the Pittsburgh Summit committed to four priorities to “strengthen the international financial regulatory system”: (i) revising Basel II framework with higher ratios and stronger counter-cyclical rules for banks; (ii) strengthening other forms of prudential rules – including supervision and liquidity provisions – with a particular focus on cross-border crisis intervention with “systemically” important institutions; (iii) moving toward further exchange traded derivative markets, and higher capital ratios for those traded “over-the-counter”; and (iv) extending previously agreed rules on bankers’ and traders’ pay to include claw back provisions, deferred payments, the banning of “guaranteed bonuses”, and the principle of “limitation” in proportion of the firms’ activities.
- 9** Taken individually these measures are welcome. The G20 Finance Ministers should commit to their effective implementation by agreeing on detailed rules and regulation within an expedited time-frame. However, taken together they will not provide for the needed regulatory response to the crisis. Some of the measures need to be enhanced and clarified: off-balance sheet activities and “non-standardised” derivative products (including ‘over-the-counter’ products that are not traded on exchanges) should be subject to high, if not prohibitive capital requirements. Beyond the Basel II framework, the G20 Finance should commit to reinforce other forms of prudential regulation. In particular the application of “disciplining rules” to banks and other financial institutions provides a powerful tool to prevent irresponsible risk taking. Public authorities must have the right to remove directors or to suspend bankers’ decisions regarding bonuses, and to enforce group restructuring if systemic risks are at play. More broadly

public accountability and capacity of supervisory authorities must be strengthened including by the creation of “systemic regulators”.

- 10 Others issues need to be taken on board by the G20 Finance Ministers. Regulatory reforms of private pools of capital – hedge funds and private equity – are needed to ensure a level playing field with other asset managers regarding their internal governance and accountability to regulators, to limited partners and other stakeholders – including workers employed in the portfolio companies acquired by private equity funds.
- 11 G20 Finance Ministers should also commit to shield workers’ pensions from excessive risk-taking or unregulated markets. Pre-funded pension schemes have been hit hard by the crisis as evidenced by recent OECD and World Bank reports. Reforms to strengthen funding rules and supervision of pension funds are welcome but must reinforce and not undermine workers’ right to decent, adequate and secured pensions.
- 12 Yet for all the G20 commitments for a true change in financial regulation and supervision in the next two years and against any return to “business as usual”, evidence from the real economy points to a different reality. The G20 Finance Ministers must remember that one year into the crisis, working families still do not have access as they should to secured and affordable financing despite the massive taxpayer-funded bailing out of the bankers. They and their traders are keeping the money and are granting themselves indefensible bonuses, while profits and dividends are at all time high in the financial sector. In the meantime the need to increase household consumer protection against predatory lending still has to be acted upon in many G20 countries.

#### **BOX WALL STREET BONUSES 2008: WHAT THEY COULD PAY FOR**

According to the Attorney General of the State of New York, Andrew Cuomo<sup>1</sup>, the nine largest US banks which collectively received USD 175Bn in government support as part of the Troubled Asset Relief Program (TARP) granted USD 32.6Bn in bonuses to their employees in 2008. This sum would have paid for:

1. Financing the gap to achieve universal primary education, adult literacy and childhood care and education in the 68 low-income countries for three years<sup>2</sup>;
2. More than doubling the US 2008 level of ODA, bringing it in line with OECD average; i.e., 0.41% of Gross National Income, compared with 0.18% currently<sup>3</sup>;
3. Cancelling the remaining debt of all Heavily Indebted Poor Countries (HIPC)<sup>4</sup>.

- 13 Ensuring that banks and other financial institutions resume their primacy function, namely financing the real economy, is a matter of priority. To that end G20 Finance Ministers should make a broad commitment to downsize

1 [http://www.oag.state.ny.us/media\\_center/2009/july/july30a\\_09.html](http://www.oag.state.ny.us/media_center/2009/july/july30a_09.html).

2 [http://www.unesco.org/education/gmr2009/press/efagmr2009\\_Highlights.pdf](http://www.unesco.org/education/gmr2009/press/efagmr2009_Highlights.pdf).

3 <http://www.oecd.org/dataoecd/48/34/42459170.pdf>.

4 [http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1240603491481/Debt\\_Pocket-Broch\\_Spring09.pdf](http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1240603491481/Debt_Pocket-Broch_Spring09.pdf).

global finance. Not only should they enforce comprehensive loss recognition by banks and effective transparency of their balance sheets, they should also recognise that global groups cumulating different businesses (e.g. in retail, trading, asset management, etc) are too big to be governed or supervised and hence need to be restructured and where necessary dismantled. They further need to acknowledge trade unions' demand for a more diversified financial service landscape including promotion of social finance (e.g. mutual insurance schemes, cooperatives) and of public financial services.

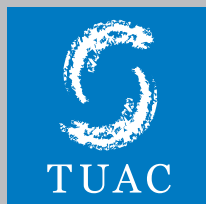
- 14** The Pittsburgh Summit agreed to study the possibilities for a “fair and substantial contribution” by the financial sector to pay for “any burdens associated with government interventions”. This constitutes a first official G20 opening to a global tax on financial transactions, something that needs to be used both to contribute to development and to finance the public debt incurred in fighting the crisis. It is of concern however that the mandate for analysing the prospects for that tax has been given to the IMF which has already expressed public scepticism about the desirability of a global tax. In view of its expertise in this area, G20 Finance Ministers should include other international organisations, such as UNCTAD, and initiatives such as the 55-country strong Leading Group on Innovative Financing for Development, that have relevant expertise on the subject. The study needs to thoroughly explore the possibility of taxes on currency transactions and on all financial transactions, taking independent evidence from economists and academics who have looked at the feasibility of such taxes, modelling a range of different rates and analysing the technical feasibility and impact on different markets of unilateral implementation of such taxes.
- 15** Regarding tax havens, the Pittsburgh Summit agreed to accelerate further international cooperation on tax havens and to implement “counter-measures” for non-complying jurisdictions from March 2010, as well as the publication of a list of “high risk jurisdictions” by the OECD-based Financial Action Task Force (FATF) in the fight against money laundering and terrorist financing by February 2010. These measures should be confirmed and elaborated on by the G20 Finance Ministers, so that all countries of the world will be able to restore their tax basis and finance their programmes and policies to tackle the crisis.
- 16** The flow of illegal capital from developing countries was addressed in the G20 Pittsburgh Statement by reference to the World Bank’s Stolen Assets Recovery Programme. The FATF is asked “to help detect and deter the proceeds of corruption by prioritising work to strengthen standards.” Yet this risks being insufficient to properly address the issues of capital flight from developing countries. Poor tax enforcement mechanisms in many countries, a low level of international cooperation on fiscal issues, inadequate international accounting standards and underequipped tax authorities are all factors that contribute to capital flight from developing countries. G20 Finance Ministers therefore need to devise further measures to achieve effective progress in this area.
- 17** In financial regulatory reform processes, transparency is essential. There can be no confidence that the central bankers and financial overseers that failed to deliver “financial stability” before the crisis can do so now. Yet

the Financial Stability Board (FSB), given a major role in this process and in implementing all the above G20 measures, remains opaque in the extreme, with even its governing meetings unannounced until the day they take place, and a minimum of reports available. The FSB must open up fully to public scrutiny and provide a role for public oversight of their affairs, through formal consultation processes including with the trade unions, publication of documents for comment, and other minimum norms of democratic institutional governance.

### **Building a new model for a balanced economy with genuine development prospects**

- 18** The G20 Leaders said in London that “prosperity is indivisible; growth, to be sustained, has to be shared”. Looking to the longer term, G20 Finance Ministers need to discuss how to break with the policies of the past so as to ensure that there is no return to business as usual. There is need for a new model of economic development and growth that is economically efficient, socially just and environmentally sustainable. This model must rebalance the relationship between public intervention and market forces in the global economy; the financial and the real economy; labour and capital; and trade surplus and deficit countries. There must be opportunities for industrialised and developing countries alike, with no imposition of policies. Above all, there must be an end to the policies that have generated massive inequalities between and within nations over the past two decades and that are the root causes of the current global crisis, as must be recognised by the IMF, the OECD and other organisations with a significant role in economic surveillance.
- 19** A fairer redistribution of wealth is the only sustainable route out of this crisis – and the only way to restore the trust of working people in the economic and financial systems; this requires progressive tax reform. At the same time, inequality between genders and between generations require attention. G20 Finance Ministers need to endorse allocation of resources in order to take urgent steps to address both gender inequalities (the gender pay gap, unequal access to pension benefits, maternity protection issues, childcare provision and so forth) and the growing crisis in youth unemployment.
- 20** References at Pittsburgh to development assistance were vague, amounting to a best-endeavour pledge with a reference to the possibility to “explore the benefits of a new crisis facility” to be implemented by the World Bank along with a new World Bank Food Security Initiative. But there were no references to new resources for the IMF, nor any commitment to recycling SDR resources from countries without need of them. G20 Finance Ministers must now remedy that deficit and pledge greatly increased support for expansionary recovery programmes in developing countries, including additional resources to assist the low-income developing countries that have benefitted little from the additional IMF resources agreed at the London G20 Summit. They must give adequate priority and resources to the issue of food insecurity which threatens over one billion persons worldwide, and reinforce the role of UN specialised agencies in this matter.

- 21 The G20 itself has acknowledged its need to develop relationships with countries not in the G20, in the phrase that “critical players need to be at the table and fully vested in our institutions” (preamble #18). It is essential that G20 Finance Ministers equally recognise that necessity and agree to propose linkages between the G20’s follow-up processes and those of the United Nations through its Ad Hoc Open-ended Working Group of the UN General Assembly on the World Economic and Financial Crisis and its Impact on Development. Support the work of the open-ended working group at the UN, with the objective of creating a new financial architecture that will better protect developing countries against crisis and market volatility.
- 22 G20 Finance Ministers meet just three weeks before the 7<sup>th</sup> World Trade Organisation (WTO) Ministerial Conference (Geneva, 30 November-2 December 2009). They should call for the WTO’s Doha Development Agenda to become a genuine development round that supports the creation of decent work in both industrialised and developing countries. It is essential that the G20 recognise the importance of delivering structural change through active government intervention to promote socially equitable and development-friendly change in firms, industries, regions and labour markets.
- 23 Finally, with regard to the continuing development of the G20 Charter for Sustainable Economic Activity mandated by the Pittsburgh Summit, G20 Finance Ministers should support such a Charter in the form envisioned by its proponent Chancellor Merkel, one that includes incorporation of ILO standards and the full Decent Work agenda of the ILO at its heart as they deliver guarantees of respect of working peoples’ rights and the key to an equitable society where wealth is shared fairly. Furthermore, the Charter must provide more than just paper guarantees; it needs to include provision for an effective implementation mechanism as well.



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