REGULATE, REDISTRIBUTE, AND RETURN TO SOCIAL VALUES AND DECENCY:

Statement of Labour Leaders to the World Economic Forum Annual Meeting

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Breaking a vicious cycle of recklessness and greed

1. The crisis generated by the reckless pursuit of risk and profit in the banking and finance sector has cost ordinary taxpayers, workers and citizens hundreds of billions of dollars in bailout money as well as tens of millions of job losses. Yet without the slightest compunction, banking management and CEO's are once again racking up massive profits and bonuses at a time when job losses in the real economy are causing immense suffering and unemployment is pushing the world to the brink of a far deeper recession. The financial sector has already launched its campaign of opposition to the plans announced by US President Barack Obama for banking and financial restructuring and regulation, even as public anger mounts over the indifference shown by so many in the sector to the plight of those who are bearing the brunt of the crisis.

2. The global crisis was precipitated by the collapse of the housing bubble in the U.S. and propagated by reckless financial speculation. The underlying causes lie in fundamental economic imbalances and inadequate governance that are the direct result of three decades of neo-liberal economic policies, with the effect that the fruits of growth have not been distributed to working families. The financial crisis provides clear evidence of the failure of the light regulatory approach of the past and the over-reliance on "self-regulation". It is also testimony to the unsustainability of a narrow focus on short-term gains. Now is the time to learn the lessons of this crisis and build a more sustainable and just future.

3. President Obama's announcement shows much needed leadership, and must form part of an overall package of financial sector reforms. Similar laws need to be enacted in other jurisdictions, in order to avoid the regulatory arbitrage which has been a key factor in the genesis of the current crisis. Yet in many instances, the very same people from the finance sector who campaigned for years to achieve a global financial free-for-all are part of the inner circle which is advising governments or determining policy in the wake of the crisis. Given the need for global coherence, bodies such as the Financial Stability Board, which conducts its affairs largely in secret, must become open to public scrutiny, and must not heed the self-interested lobbying from financiers who have shown little if any regard for the consequences of their actions.

4. Trade union leaders and the workers we represent insist that this time governments have to get it right. In fact, the problems of massive unemployment, growing precarisation and deterioration of work and declining social protection are part of a bigger picture of polarisation in our societies. This is leading to the erosion of social and political stability around the world, instabilities that risk becoming a permanent fixture of the new decade unless we counter short-termism, greed, lack of morality and anti-social values and reject corporate bankers' wish to return to 'business as usual' and to continue rewarding themselves with multi-billion dollar bonus packages.

5. This is an issue of fairness and solidarity. Citizens and taxpayers are being told they have to meet the costs of the crisis twice – first through the initial financing of the bailouts and stimulus packages and then by refunding public debts through reduced government expenditure and higher taxes, while the elites get the benefits. Governments must push forward with progressive fiscal reform in order to spread the costs of the crisis fairly and to provide a sustainable solution to growing public finance deficits. They must place the burden on the companies and executives who created the crisis in the first place rather than on the workers, who would be the first to suffer under austerity plans in a context where unemployment rates may rise to 20% in some OECD countries.[1]

Regulate, redistribute, and return to social values and decency

6. Trade unions do not accept that spending on social and public health systems, education, infrastructure and social safety nets should be reduced in order to pay off public debt that came about as a result of individualistic profit-seeking while the banks and finance avoid paying the costs of their actions. Governments must take control of the re-regulation of a banking and financial sector that has become too large and too unstable. Overcoming bankers' resistance to challenging and changing the system of indefensible bonus remuneration is imperative; the continued payment of corporate bonuses is testimony to the failure of an approach to corporate governance that is centred on shareholder value. In addition, recent events show that the leveraged buyout, where companies are bought on the back of massive borrowing, CEOs and directors get windfall payments and workers often lose their jobs, remains an ugly feature of the global economy, adding risk and deepening inequality. This needs to change. Sustainable company management also requires rights and benefits for workers, not only creditors and shareholders.[2]

WALL STREET BONUSES: WHAT THEY COULD PAY FOR

According to the Attorney General of the State of New York, Andrew Cuomo[3], 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:

- Financing the gap to achieve universal primary education, adult literacy and childhood care and education in the 68 low-income countries for three years[4];

- 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[5];

- Cancelling the remaining debt of all Heavily Indebted Poor Countries (HIPC)[6].

7. Along with the US proposals for structural reform of banking, the UK and the US governments have proposed that some form of levy be imposed on all big banks'

[1] To read trade union proposals to the G20 Pittsburgh Summit (September 2009), see: http://www.ituc-csi.org/IMG/pdf/0909t_g20_Pittsburgh_en_2_.pdf
[2] To read trade union proposals on financial regulation to the St Andrews G20 Finance Ministers' Meeting (7-8 November 2008), including the role of the Financial Stability Board (FSB), see http://www.ituc-csi.org/IMG/pdf/0911t_g20_standrews_final_final.pdf
[3] http://www.oag.state.ny.us/media_center/2009/july/july30a_09.html
[4] http://www.unesco.org/education/gmr2009/press/efagmr2009_Highlights.pdf
[5] http://www.oecd.org/dataoecd/48/34/42459170.pdf
[6] http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1240603491481/Debt_PocketBroch_Spring09.pdf

bonuses and it is likely that other countries will follow suit. Such taxation will fill some of the holes in public finances and it should further handicap big banks from getting bigger as the tax would be based on the size of their assets. Trade unions strongly support this proposal but we want to take it further. Fairness has to be brought back into the equation. Polluters must pay and it is time for the banks which polluted the world economy to pay a much larger share in reducing public debt.

8. Above and beyond this, there needs to be a strictly regulated upper limit on corporate bonuses and CEO pay. Changing the current form of bonus structures driven by short-termism, reckless behaviour and speculation requires a cap on bonuses and earnings. We support a ceiling of no more than 20 times average earnings for the salaries of CEOs and a limit of bonuses to 100% of salary as an absolute maximum.

9. Introducing international taxation for short-term financial transactions would curb excessive risk-taking and speculation by traders across all jurisdictions – thus ensuring a level playing field. It would provide vital new funds for financing the public debt incurred as a result of the crisis, tackling climate change and increasing official development assistance. A comprehensive Financial Transactions Tax (FTT) needs urgently to be implemented.

10. Governments now need to deliver on the commitments which they have made at successive G20 meetings and in other fora. The above three proposals are all technically feasible and need to become the basis of a new set of ethical rules in the financial sector. But political courage and will is needed if we are serious about rebuilding momentum to reform the financial system so that it once more serves the needs of the real economy.

Responding to the immediate jobs crisis

11. The persistent and deepening jobs crisis demonstrates the urgent need for a far more coherent and internationally co-ordinated jobs-oriented recovery strategy than has been put on the table so far. This strategy must have creation of decent and sustainable jobs as its primary focus, to get people back to work and kick-start private sector demand. The global trade union movement is gravely concerned that fiscal stimulus packages to date remain inadequate in size and insufficiently focused on employment[7]. According to OECD and ILO reviews of responses to the crisis in over 40 countries, the fiscal stimulus measures still do not sufficiently focus on employment and social protection. Moreover, they have failed to tackle the lack of social protection and the dramatic decline in individual wealth held in pensions. The effects of the crisis are being felt most by those whose pensions fall under unprotected 'defined contribution' schemes that provide no pension security at the age of retirement

12. And unless action is taken, the worst is still to come. Latest projections by the International Labour Organisation (ILO) and the Organisation for Economic Cooperation and Development (OECD) indicate that unemployment rates in the industrialised countries are still rising fast and will continue rising throughout this year. The situation could have been far worse without significant levels of government support for the

[7] ILO-IILS (ed.), The Financial and Economic Crisis: A Decent Work Response, Geneva 2009, p. 8.

economy. Yet some countries are already talking of public expenditure cuts and reversing stimulus measures, which given the weakness of private sector demand would risk catalysing a further collapse in demand, deepening the jobs crisis and worsening its social impacts. With stimulus packages in a number of countries due to come to an end in the coming months, it is of vital importance that these be renewed and reinforced, and that they include a strong focus on employment. A premature exit strategy would only repeat the mistakes of past crises.

13. Furthermore, the quality of jobs created matters. The expansion of precarious forms of work and deregulation of the labour market, increased wage flexibility and cuts in unemployment benefits are not the answer to the employment crisis – it should be stressed that the insecurity of working people over recent decades was a significant contributor to today's recession. A major challenge faced by both industrialised and developing countries is how to build labour market security in a globalised economy. Labour market flexibility must not be achieved through the severing of the standard employment relationship, the erosion of workers' fundamental rights or reductions in workers' welfare.[8] Investment in transforming economies into a low-carbon future should be a key focus of stimulus, with an emphasis on "just transition" to ensure that workers and their communities affected by the move to a green economy have decent jobs and a secure future.

14. Trade union leaders urge that the following key issues be addressed by the World Economic Forum to help search for solutions in fighting an enduring jobs crisis and the spectre of a jobless recovery, and avoiding a further and deeper recession:

- A greater proportion of recovery package expenditure must be committed to employment creation and measures must be targeted so as to have the strongest impact on employment;

- Governments must invest more in public works, especially those that can create jobs quickly and be transformational in moving to an environmentally sustainable economy, thus helping lay the basis for governments to conclude a fair and ambitious international agreement to tackle climate change;

- Short-time working and job subsidy schemes should be strengthened where the alternative is unemployment, to minimise the inflow of workers into unemployment;

- The scarring effects of youth unemployment must be avoided through job guarantees and expanded education;

- Poverty and social exclusion should be targeted through a stronger focus on social security measures in responses to the crisis, which can also support demand;

- Emerging and developing countries must be given the resources and policy space to implement universal social protection and to provide the decent jobs that can contribute to the global growth of demand.

[8] To read the Trade Union Proposals for the G20 Employment and Labour Ministers Meeting (Washington D.C., April 2010), see: http://www.ituc-csi.org/ituc-tuac-beating-the-jobs-crisis.html?var_mode=calcul

Conclusions

15. 2010 marks the beginning of a new decade. What will be remembered from the old? Global recession, in the form of an all-encompassing economic crisis that caused unemployment to surge globally and let poverty and inequalities grow while sending living standards, economic activity and trade into a tailspin; inadequate action to tackle a climate crisis that threatens us all; a massive increase in personal enrichment by bankers and financial speculators without an ounce of decency or regard for the welfare of our societies; and an overwhelming deep-rooted public distrust of the prevailing global economic and financial systems, which is rapidly undermining confidence in governments everywhere. The potential for serious social unrest is substantial, and is likely to become a reality unless governments face up to their responsibilities to govern in the interests of the many and get the world economy onto the correct path.

16. The new decade provides a new opportunity to create an economic development model that puts people, the environment and the public interest first. Trade unions want to seize that opportunity and to take part in shaping the global agenda so as to improve the state of our world. We want a model for a balanced economy in which the financial sector once more serves the needs of the real world, a new model based on balanced wage-led growth rather than financialisation and excessive, unsustainable profits. Such responsible and sustainable solutions must be a priority for all participants in the World Economic Forum 2010.