

TRADE UNION POSITIONS ON THE ECONOMIC CRISIS

**John Evans, General Secretary,
Trade Union Advisory Committee to the OECD**

I. Introduction

1. The world is in the midst of an all-encompassing, unprecedented, triple crisis. The crisis which started in the U.S. housing market and resulted in first the credit market crisis and then the employment crisis has evolved into a complex and dangerous vicious circle, with falling housing prices and unemployment combining to feed the crisis in the credit market. This cycle has been replicated across industrialised and emerging economies highlighting the need for urgent coordinated fiscal action focused on stimulating the real economy and protecting jobs.

3. This most serious economic crisis since the Great Depression of the 1930s must mark the end of 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. Trade unions believe that 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 there is a need to establish a new economic order that is both economically efficient and socially just.

II. A Co-ordinated Recovery Plan For the Real Economy

4. Governments should bring forward infrastructure investment programmes that stimulate demand growth in the short term and raise productivity growth in the medium term. Now is the time to make press ahead 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.

III. Re-regulating Global Financial Markets

5. Trade unions consider that a blueprint for re-regulating the financial markets should include the following:

- 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.

4. Trade unions also underline the need for strong action to be taken to tackle the loss of tax revenues resulting from the use of tax havens. Tax payers should not be expected to bail out failing financial institutions when the same institutions have used tax havens as a means to avoid paying their fair share of tax. All governments should take the necessary steps to protect their revenue base, so as to offset expected substantial reductions in corporate tax receipts given the expected decline in GDP. This includes strengthening political support for the OECD's work on of tax havens.

IV. A New International System of Economic Governance

7. The new post-crisis settlement must address international economic governance. Whilst governments must start work on the necessary structures, this debate should not be held between bankers and finance ministry officials, behind closed doors. Trade unions must have a seat at the table.

8. 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 International Financial Institutions (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. There is also an urgent need for both the IMF and the World Bank to put an end to the economic policy conditionality that has characterised their interventions in developing countries over the past three decades. These conditionalities have minimised rather than strengthened the application of fiduciary controls and respect for internationally agreed standards, including core labour standards. 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

6. There is also an urgent need to 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.

VI. Conclusion

6. Trade unions believe that tackling this triple crisis requires cooperation at all levels – G7, G8, G20, Europe, OECD and the IFIs – in order to avoid regulatory arbitrage and ensure global reach of the new architecture. Working people require a seat at the table in these meetings and in these institutions. There must be full transparency, disclosure and consultation. The Global Union organisations are ready to play their role in this process.

Links:

Trade Union Statement to the “G20 Crisis Summit” - The Global Unions “Washington Declaration”, November 2008:

http://www.tuac.org/en/public/e-docs/00/00/03/66/document_doc.phtml

Re-regulation in the Aftermath of the Global Financial Crisis – Position Paper, November 2008:

http://www.tuac.org/en/public/e-docs/00/00/03/91/document_doc.phtml