FORGING A NEW GLOBAL CONSENSUS FOR RESTORED GROWTH, SUSTAINABLE DEVELOPMENT AND DECENT JOBS

ITUC Statement to the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development

New York, 24-26 June, 2009

INTRODUCTION – THE UN AS A FORUM TO ADDRESS THE DEVELOPMENT DIMENSIONS OF THE CRISIS

1. The world community is in the throes of a severe and deepening financial and economic crisis that is undermining developing country efforts to achieve the Millennium Development Goals (MDGs), and people's prospects for working their way out of poverty through decent jobs. The ILO talks of a veritable jobs crisis leading to a social recession, and it is clear that the impacts on developing countries are particularly severe. These development challenges need to be taken up in an inclusive forum where the representatives of the developing countries that are bearing much of the brunt of the crisis have a say in policy-making and a search for solutions to restore growth and sustainable development. The United Nations provides such a forum. The United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, which was mandated by the Doha Declaration of December 2008 on Financing for Development, is therefore of critical importance for the international community.

2. The ITUC, representing 170 million workers organised in 312 national trade union centres in 157 countries, fully supports the aims of this Conference, and calls for a strong Outcome Document that will serve to forge a new global consensus on the systemic reforms and policy responses required to restore growth with equity, and provide developing countries with very real prospects for achieving the MDGS and the broader Internationally Agreed Development Goals (IADGs). Further details of Global Unions' proposals to end the global economic and financial crisis are contained in the trade union statements to the G8 L'Aquila Summit (Italy, July 2009)[1] and G20 London Summit (April 2009)[2].

[1] **http://www.tuac.org/en/public/e-docs/00/00/04/E0/document_doc.phtml**
[2] **http://www.ituc-csi.org/IMG/pdf/No_16_-_G20_London_Declaration_FINAL.pdf**

THE CHALLENGE OF REACHING AGREEMENT ON A STRONG, PRO-DEVELOPMENT OUTCOME DOCUMENT OF THE CONFERENCE

3. The current negotiations on the Draft Outcome Document (DOD) for the United Nations Conference make clear the need for fundamental governance and policy reforms. Enhanced political will to reach agreement on reforms is required, as well as comprehensive, strong, pro-development solutions as recommended in the Stiglitz Commission Report. This would be in line with the original intent to have the Commission recommendations serve as a basis for the Conference Outcome document. During the current global crisis, it is more important than ever that the IFIs, which have been granted substantial additional resources to assist countries in financial difficulty, put an end to harmful loan conditions based on neo-liberal policy approaches.

4. The ITUC reiterates the call made in the Global Unions Statement to the IFI 2009 Spring Meetings for the IFIs to reach early agreement on revisions of their governing structures, to increase developing-country representation substantially. Developing countries must achieve at least parity representation to industrialised countries at the World Bank, by virtue of its role as a development institution. Representation must be substantially improved for the two groups of countries that are currently under-represented in the IMF's decision-making structures: the group of "emerging economy" countries which have been called upon to make additional resources available to the Fund, and other middle- and low-income countries currently using the IMF's assistance, where the Fund's lending policies have major implications for domestic policy.

5. The draft text of the UN Conference document must be strengthened in the key areas of needed policy and governance reforms outlined above. Decisive actions are needed to turn the current crisis around, including deep systemic reforms; a much improved regulatory environment with adequate accountability and oversight; addressing redistribution through a fairer trading system; tackling mis-pricing and secrecy jurisdictions; and stepping up tax cooperation and innovative financing. The UN Conference process must be sustained through follow-up Working Groups, asserting a clear role in economic policy-making for the UN and the non-G20 countries.

FORGING A NEW GLOBAL CONSENSUS FOR SUSTAINABLE DEVELOPMENT

6. Paragraph 38 of the Draft Outcome Document of 18 May, 2009[3] calls for "a new global consensus on the key values and principles that will promote sustainable economic activity." Paragraph 12 reaffirms the mandate of the UN Charter upon which this consensus must be based, namely, "to achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character," and "to be a centre for harmonising the actions of nations in the attainment of these common

[3] All mention of the Draft Outcome Document (DOD) in this Statement refers to the version of the DOD dated 18 May, 2009.

ends." The Outcome document therefore positions the UN and all of its Member States in an inclusive search for global coordinated solutions to a global crisis that affects all countries. The Document recognises and attempts to build linkages with other processes addressing the crisis, delineating the UN's role as one of "[contributing] to what already is being undertaken by other actors and in other fora and is intended to give political guidance and direction to future meetings, actions and measures undertaken by the world community." [Paragraph 12]

7. **Member States need to support the completion of an ambitious agreement by the United Nations Framework Convention on Climate Change (UNFCCC) at Copenhagen in December 2009.** This will require action on Green Jobs, financing of support for developing countries and the inclusion of "just transition" strategies in the agreement adopted in Copenhagen.

8. Member States at the UN must move decisively on global governance reforms, including IFI reforms, placing social priorities at the centre of international governance with the setting up of a Global Economic Council (GEC) which will be the locus of forging this new global consensus on sustainable development policies, backed by the kinds of institutional reforms needed to restore lasting growth. It is important that the GEC be established, and that within this body functional linkages between the UN and the G20 processes be forged, in the interests of inclusive, democratic global governance and policy coherence. There is a need for global coordinated measures within a global forum to tackle what is a global crisis. The decent work dimensions of social dialogue and respect for fundamental principles and rights at work are critical components for achieving distributive justice within a new consensus for restored growth with equity, and must be prioritised. Those most severely affected by the crisis cannot be left out of the process of policy-making. In this regard, attempts to make the UN Conference a one-off event are unacceptable. Trade unions support the Stiglitz Commission proposals for an on-going process, coordinated by the GEC, with an International Panel serving as an advisory body. Provision should be made for trade union seats on this Panel which should comprise, according to the Commission's recommendations, "well-respected academics from all over the world,… including representatives of social movements."

ROOT CAUSES OF THE CRISIS

9. The root causes of the crisis have been thoroughly analysed in the current literature on the subject. Vectors of the crisis included highly leveraged, risky financial instruments and transactions such as derivatives, private equity funds, hedge funds and securitised credit instruments that operated outside any regulatory framework, accumulating massive amounts of resources in a shadow economy, aided by the use of tax havens, and representing trillions of dollars lost to productive investments in the real economy. All of this led to a banking solvency crisis, a crisis of confidence in the financial sector, and the severe economic slowdown that we are experiencing today. The negative consequences for the livelihoods and well-being of households in rich and poor countries are part of the unfolding scenario of the economic meltdown.

10. Highly skewed concentrations of wealth within corporate circles and among the drivers of the financialised economy were matched by increasing income inequality and deteriorating conditions of work for a large part of the labour force in many countries, shown by the fact that the share of wages in national income has been shrinking in a large number of countries over the years. The worsening economic crisis will only serve to exacerbate these inequalities. Millions of people have seen their pensions, life savings, homes and jobs suddenly disappear. Impacts have been particularly severe in developing countries, already ravaged by the food and energy crises, and facing massive underemployment and precarious low-paid work for workers in informal and unprotected work.

MEASURING THE DEPTH OF THE ECONOMIC MELTDOWN

11. Another dimension of the imbalances and asymmetries in the global economy is the net outflows of capital from the developing to the developed countries through such factors as tax evasion, transfer pricing on the part of multinational companies, unfavourable terms of trade, collapse in commodity prices, and increased debt-servicing. The effects of the economic meltdown can be measured at the global level by the UNDESA estimate of a deceleration in per capita growth of –3.4% in 2009. The world economy is expected to shrink by 2.6% in 2009, according to the UN's World Economic Situation and Prospects (WESP) 2009 mid-term report. Even though the crisis originated in the industrialised countries, developing countries are being hit disproportionately hard. Africa's GDP growth is expected to shift to 0.9% in 2009, down from 4.9% in 2008. GDP growth of developing countries in Asia will be halved to 3% in 2009. Remittance-receiving developing countries will see declines in GDP by as much as 20%, as a result of steep declines in remittance flows.

12. The human costs of the economic meltdown are painful and real. The economic downturn has further exacerbated the food crisis, bringing the estimated number of the hungry to 1 billion. Levels of malnutrition among children in low income countries have seen a dramatic rise, prompting UNICEF and WFP to step up their food relief programmes in poor and vulnerable communities. Progress towards the achievement of the MDGs has been seriously compromised.

THE LOOMING JOBS CRISIS

13. A veritable jobs crisis is looming on the horizon, leading to a social recession. This is demonstrated by ILO assessments that the worst case scenario of global unemployment increasing by 50 million by the end of 2009 is the most likely to be realised. The ranks of the working poor, those earning less than $2 a day, will rise to 200 million. Given the fact that employment growth typically lags behind economic growth, the jobs crisis is likely to persist for several years, even after growth picks up in the global economy. Social protection measures to cushion the shock and the pain of income loss due to unemployment are lacking in many countries in the developing world, and certainly lacking for the majority of women and men working in precarious, low-income informal and unprotected jobs.

14. Women are particularly hard-hit by the crisis, seeing their already underpaid work evaporate as a result of the economic downturn, leaving them to shoulder the burden of household care activities without income or social compensation. Youth employment is of particular concern, as tens of million of young people are about to enter a weak, depressed labour market with very poor chances of finding decent work.

THE STIGLITZ COMMISSION REPORT AND THE NEED FOR COUNTER-CYCLICAL POLICIES

15. **The challenge for Member States convening at the UN for the Conference on the crisis is to adopt an Outcome Document that recognises the root causes and the severe social and developmental impacts, and that agrees to a set of bold, decisive actions within a comprehensive and coordinated framework that is adequate to the task of bringing in enduring, sustainable solutions.** The Report of the Commission of Experts set up to explore solutions to the crisis (the Stiglitz Commission Report) contains just such a comprehensive set of recommendations which should be fully incorporated into the Outcome Document to be adopted by Member States at the Conference.

16. By putting low income countries at the heart of the discussion, the Report systematically analyses the impacts of various market failures on development, and uses its findings as the basis for recommendations that would have positive and enduring development outcomes. **Trade unions support the Report's recommendation for strong global coordination of fiscal stimulus measures so as to ensure the availability of adequate resources for developing countries. Trade unions recommend that the design of stimulus packages integrate a strong emphasis on job-intensive investments in physical and social infrastructure, and various cash transfer schemes that stimulate consumer spending, making sure to target poor and needy communities.**

17. Sources of financing for these stimulus packages are key. They should be concessionary in nature, relying on ODA and other grant arrangements as much as possible, rather than debt-creating loans. Developing countries should not have to bear an increased burden of debt as a result of a crisis they did nothing to bring about. The type of IFI-imposed pro-cyclical measures that were applied to Asian countries during the 1990s crisis must be revamped. Rather, **developing countries must be allowed the policy space they need to implement countercyclical policies, devoid of harmful policy conditionalities** such as interest rate hikes, cuts in social spending, wage freezes, and labour market deregulation.

18. **Countercyclical policies to stimulate aggregate demand should prioritise the strengthening of labour markets** through the following means:

- Promoting infrastructure investment in sectors that would generate employment opportunities;
- Promoting social infrastructure investment that would generate employment opportunities, focusing on provision of quality public services in education,

health, water, sanitation, while introducing an important gender dimension by freeing women from the burden of unpaid work in the care economy, and providing them with decent jobs;

- Promoting large-scale investment in green infrastructure, such as energy efficiency and renewable energies, green construction and transport, thereby stimulating the creation of high quality employment across a range of sectors, while equipping workers through skills development for new green and decent jobs;
- Providing support for retaining workers through incentives to small and medium enterprises (SMEs) affected by credit shortages;
- Promoting investment in people, and offering improved training opportunities, in order to facilitate the acquisition of new skills by workers of all ages;
- Introducing measures (such as India's rural employment guarantee scheme) to support the purchasing power of low income earners, including single earner households, which are predominantly female-headed;
- Providing income support through expanded unemployment benefits and other social protection measures;
- Creating or strengthening automatic macroeconomic stabilisers and social insurance systems to help developing countries weather the crisis. In the absence of such stabilisers, women's unpaid labour acts as a stabiliser, and increases their burden.;
- Focusing on groups most affected by the crisis, such as the young, older and unskilled workers, temporary and part-time workers, women and migrants;
- Assuring migrant workers the same rights as other citizens, in recognition of the universality of human and trade union rights, and also recognising that the stigmatisation of migrant workers leads to xenophobia, and ultimately exacerbates social exclusion and poverty;
- Intensifying efforts to eliminate structured inequalities and discrimination in the world of work, including the gender pay gap, which is estimated to range from 22 per cent to 60 per cent worldwide.

19. A priority focus on cash transfers and social protection to poor households as outlined above will have tremendous multiplier effects. Putting more money into the pockets and purses of people on low incomes will boost the economy, as they are more likely to spend any extra cash quickly, ensuring that it contributes to stimulating demand-led growth, and helping to beat the recession.

20. The application of stimulus packages with an emphasis on productive investments and decent work constitutes a short to medium-term measure that begins a process of fair re-distributive growth in the global economy. It must, however, be linked to longer term systemic reforms within a new financial and development architecture that effectively regulates the financial sector, and ensures that it carries out its real function, namely to serve the interests of the productive economy and sustainable development. Clearly, an adequate regulatory environment is key to restoring long term growth with shared prosperity. Binding regulation to ensure public control and oversight of all financial institutions, products and transactions is necessary.

GLOBAL UNIONS PROPOSE AN EIGHT-POINT PLAN OF REGULATORY REFORMS:

21.1 Clamp down on the 'shadow' financial economy. Governments must ensure full regulatory coverage of all institutions, products and transactions. In particular, private pools of capital (hedge funds and private equity) must not be exempted from regulation that applies to other asset management entities that provide for accountability to investors, transparency and, where needed, employer responsibilities. Credit rating agencies must be properly regulated, so as to avoid conflicts of interest in the valuation of products and institutions.

21.2 End tax and regulatory havens and create new international mechanisms for tax cooperation. Government leaders must agree on international cooperation measures to combat tax evasion, curb mis-pricing, and bring tax havens, offshore financial centres (OFCs) and bank secrecy jurisdictions in line with international standards. They must act to stop the 'race to the bottom' between tax jurisdictions, which is eroding the tax revenue source of many countries. Governments should agree on strict reporting requirements for multinational companies and other investors, and develop a package of sanctions to protect their tax base, including investment restrictions for institutional investors and higher penalties for tax crimes. Moreover, international taxation of financial transactions, such as short-term movements, should be introduced in order to increase spending on priority social and development needs, including through enhanced overseas development assistance (ODA). Such a tax could help protect developing countries against global market volatility. Governments should agree to providing an international mechanism for addressing all these matters related to tax cooperation through upgrading the UN Committee on Tax matters to an intergovernmental body, as called for in the Doha Declaration.

21.3 Ensure fair and sustainable access to international finance for developing countries. Developing countries should be given access to credit lending, on terms that are commensurate to their needs. Measures include activating the IMF Special Drawing Rights (SDRs) programme in a way more accessible to developing country needs, accelerating regional currency cooperation, and redirecting the capital flows of current account surplus countries, including their Sovereign Wealth Funds, towards development objectives.

21.4 Reform the private banking business model to prevent asset bubbles and reduce leverage risks. Capital adequacy rules – the amount of capital banks are required to put aside as collateral for their lending – must be further tied to the growth of the bank's holdings in assets and to the degree of risk borne by those assets. This would help drive asset allocation towards socially desirable goals, and facilitate the control of asset price inflation by central banks.

21.5 Protect working families against predatory lending. Governments should take steps to increase the security of lending for working families by providing for the transparency of financial contracts (housing, credit cards, insurance), access to effective recourse, proximity of services and affordability (ceilings on interest rates and fees). The remuneration and incentive schemes of banks, their employees and other credit-suppliers should be designed to ensure responsible sales and lending practices that serve the interests of customers.

21.6 Consolidate and enhance the public accountability, mandate and resources of supervisory authorities. Governments must act to end the fragmented approach to financial regulation, which is currently divided according to business activity and national jurisdiction. There must be supra-national consolidation where needed, with attention paid to representation and voice of countries affected by the activities of institutional investors. The mandate of supervisory authorities should be extended to cover monitoring of asset price inflation. A trade union voice must be heard in their governance structure. In addition, the supervisory framework, including 'colleges of supervisors', should provide for the cooperation of financial authorities with trade unions and other workplace employee representative structures in the financial sector: e.g., works councils and international framework agreements that are drawn up between Global Union Federations and multinational companies.

21.7 Restructure and diversify the banking sector. A diversity of business models and legal forms is needed to help build balanced and robust domestic financial services that serve the real economy and meet the needs of working families. Governments should promote alternative models to for-profit banking and insurance services, such as credit unions, cooperative banking, mutual insurance, and other community-based and public financial services. Restructuring must be carried out on the basis of the highest standards of social dialogue, and any employment impacts must be mitigated.

21.8 Protect Workers' Pensions. Governments must take action to protect pre-funded pension schemes. The crisis has revealed the danger of unlimited investment of workers' pensions in the 'shadow' financial sector. Governments should take steps to ensure an adequate retirement for workers under pre-funded regimes, through the strengthening of existing government guarantee schemes and pension fund investment regulation generally, including ensuring employers take their share of the pension risk and funding responsibilities.

CREATING A FAVOURABLE MACRO-ECONOMIC ENVIRONMENT FOR DEVELOPMENT

22. Deep systemic reforms are needed to assist developing countries to come out of the crisis. A key area for reforms is debt restructuring. Without substantial debt relief and debt-exit strategies, many heavily indebted poor countries (HIPCs) will be unable to implement counter-cyclical policies. **What is needed is a Sovereign Debt Restructuring Mechanism (SDRM) to provide a framework for fair and transparent debt workout, led by a neutral arbiter or ombudsperson that is not the creditor, thereby avoiding conflicts of interest. In countries where severe debt overhangs are compromising the capacity to introduce counter-cyclical measures, and in those**

countries burdened by illegitimate and odious debt, measures such as debt moratoria and debt cancellation should be considered. The SDRM framework should also serve to protect countries from predatory practices such as vulture funds.

23. The current context makes the search for capital challenging for developing countries. 80% of the resources raised for fiscal stimulus packages have gone to industrialised countries, and what is left is woefully inadequate for the needs of developing countries. A globally coordinated, development-oriented policy response, with adequate funding of fiscal packages for developing countries would result in much better global growth gains than current, relatively uncoordinated application of individual country stimulus packages. **Trade unions call on all Member States to support the Stiglitz Commission Report which proposes:**

- Dedicating 1% of the stimulus packages of rich countries to low income countries over and above Official Development Assistance commitments which should stay on track. That would give them the required fiscal space to mitigate the social impact on the poorest and contribute to global aggregate demand;
- Issuing IMF Special Drawing Rights to offset the imbalances and inequities created by the stimulus and bail-out measures implemented in industrialised countries. The Commission recommends issuing at least $250 billion per year for the duration of the crisis ;
- Augmenting liquidity through regional cooperation arrangements such as the liquidity support facility of the Chiang Mai initiative in Asia ;
- Creating a new credit facility allowing developing countries to access liquidity quickly without inappropriate policy conditionalities. Noting that the current system does not provide an efficient mechanism for mobilising the funds available in countries that have accumulated large reserves, the Stiglitz Commission recommends creating new credit facilities that could be backed by guarantees provided by industrialised countries and borrow in global financial markets including in Sovereign Wealth Funds. In the Commission's view, these new facilities could be located either under the umbrella of existing institutions or established as a new institution. But they should, in any case, adhere to current social and environmental standards.

24. Another issue to be addressed is that of existing multilateral and bilateral trade agreements which circumscribe the ability of developing countries to respond to the crisis with appropriate regulatory, structural, and macro-economic reforms. Trade unions support the Stiglitz Commission's recommendations for necessary corrective actions to adjust those trade and investment agreements that hamper the implementation of counter-cyclical policies because of obligations on capital market deregulation and liberalisation.

25. Reform of the International Financial Institutions (IFIs) driving the systemic reforms is a key challenge related to overcoming the crisis. It is clear that the harmful

policy conditionalities of the IFIs, including tight monetary policies, pressure for capital market and labour market deregulation, privatisation, promotion of export-led growth, and implicit support for the unregulated, risky behaviour of institutional investors, have all contributed to or exacerbated the crisis. The impacts of IMF conditionalities and World Bank business-friendly policies on increasing income inequality and poverty in developing countries are well documented in the Global Unions Statement to the 2009 Spring Meetings of the IMF and the World Bank. A new policy approach is needed, one that puts the emphasis on demand-led growth, the social dimensions of macro-economic policies, robust measures to ensure fair, redistributive growth with developing countries having the policy space to determine their development priorities, and the pace and sequencing of liberalisation.

CONCLUSIONS – INITIATING A GLOBAL, INCLUSIVE, ON-GOING PROCESS FOR RESTORED GROWTH

26. Trade unions support the proposals of the Draft Outcome Document for an open, inclusive, and on-going process of follow-up of its recommendations through thematic Working Groups [para 53]. Trade unions further welcome the recognition in the Draft Outcome Document of the ILO's role and competence in leading policy responses on the Jobs Crisis, through the establishment of "a Global Jobs Pact, based on the Decent Work Agenda" [para 51]. Indeed, **the role of the ILO in addressing the jobs crisis, as part of a global coordinated process, must be fully recognised. The Global Jobs Pact, underpinned by the ILO Declaration on Social Justice for a Fair Globalisation, provides guidelines, policy and support for national policy agreements and for development cooperation agreements specifically designed to strengthen labour markets, promote decent jobs and social protection in developing countries. All UN member states should assist fully in its implementation.**

27. Trade unions insist that the decent work dimensions of social dialogue and respect for fundamental principles and rights at work are critical components for achieving distributive justice within a new consensus for restored growth with equity, and that these must also be prioritised. Consultative arrangements should be put in place within the Working Groups agreed by the Conference to ensure the continuing engagement of trade unions and other representative civil society organisations in follow-up and implementation of measures for effective governance of the global economy, restored global growth and shared prosperity for all. Trade unions stand ready to bring their recommendations, as outlined in this Statement, into the deliberations of such Working Groups.

28. **Trade unions call on Member States negotiating the Outcome Document to show the necessary political will, and to agree to a strong, pro-development Document that initiates an inclusive process towards real and lasting solutions to the crisis, as outlined in the recommendations of this Statement.**

****