

A COORDINATED RECOVERY PLAN FOR THE REAL ECONOMY – HOW TO ACHIEVE AND SHAPE A POST-CRISIS WORLD

- ***Economic Stimulus for Recovery***
- ***Financial Regulation for Stability and Growth***
- ***Effective and Coherent Global Governance***
- ***Green Pathways for the World Economy***
- ***Development to End Poverty***

“Employment and workers’ rights are central to fixing a global economy which is badly broken” – Guy Ryder, General Secretary, International Trade Union Confederation

Statement of Labour Leaders to the World Economic Forum Annual Meeting

Davos, Switzerland, 28 January - 1 February 2009

Introduction

1. The world is in the midst of an all-encompassing, unprecedented, triple crisis that has already had a dramatic impact on the real economy. For the moment, we are no nearer the end of the financial crisis than we were a year ago - it has grown worse. So far we have only seen the tip of the iceberg with a collapse of the financial sector, currency devaluation, growing unemployment and the threat of global recession. The initial crisis that started in the U.S. housing market, which led to 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 to stimulate the real economy to protect jobs. Beyond this the global imperative before us now is to work together on a more inclusive, just and democratic system for the governance of global financial markets and the global economy in general.
2. Today we face growing inequalities between the rich and the poor, massive job losses, major loss of purchasing power and even the spectre of depression, all the consequence of deregulation and the promotion of innovative financial instruments portrayed as efficient but in the end causing the enormous problems we confront at this time.
3. Before moving to this year’s annual WEF meeting theme of “Shaping the Post-Crisis World”, the world must define and implement sustainable solutions to the crisis it faces now. Solutions that favour workers, young people, homeowners and the unemployed, not just the bailed-out bankers and financial speculators who all too frequently have been the main beneficiaries to date.
4. If anything, crisis and downturn forces us to rethink the models of market fundamentalism that have so brutally failed on an institutional and moral level, leaving workers from the middle- and low-income wage classes with the heavy burden of limited credit flow and the risk of losing their jobs. The highest price

stands to be paid by the weakest and the most vulnerable in society. We need to address the root causes of the crisis and now is the time to plan for global leadership, multi-stakeholder and sustainable solutions that can take us out of the crisis and shape the future. The voice of workers' representatives, their trade unions, must be heard when addressing the structure of a new and more inclusive governance architecture that generate decent work opportunities across the globe as part of a sustainable and fair globalisation.

WEF 2009 sub-theme: Promoting Stability in the Financial System and Reviving Global Economic Growth

5. The economic outlook for 2009 is grim. Global economic growth is predicted to fall from 2.5 percent in 2008 to 0.9 percent in 2009. The outlook for the industrialised countries is that growth is likely to be negative in the coming year. Growth in the developing countries has also come to a halt and is expected to decline from 7.1 percent in 2008 to 4.5 percent in 2009.
6. The mounting financial chaos is taking its toll on the real economy with sharply falling employment in the US and the UK now spreading into the Euro Zone and threatening a global recession. Unemployment rates in the OECD are forecast to jump by 20% in the first six months of 2009, although this may well prove to be an underestimate. The unemployment rate in the US reached a record-high 7.2 percent in December 2008, making more than 11 million Americans jobless. In the UK unemployment figures are 6 percent while in Germany, 7.8 percent of the population is without a job. In several emerging and developing countries, particularly those with highly leveraged banking systems or running large current-account deficits, massive job cuts are taking place and real household incomes are falling. Capital is leaving many developing countries that can ill afford the loss of investment, and the problems are being compounded by the reduction of remittances by migrant workers, many of whom are also losing their jobs. The plight of migrant workers is only one example of how the least protected workers of the world will be the most affected, indeed adding to the recession's impact. The ILO predicted last October, although this may also be an underestimate, that global unemployment will rise from 190 million in 2007 to 210 million in 2009, with the number of working poor on less than a dollar a day rising by 40 million and those on 2 dollars a day by 100 million.
7. Overall, the global economy and the financial governance structure need to be reformed and re-regulated if a more favourable outlook of higher growth for the coming year is to be achieved. Labour must be an inclusive part when considering the solutions and means to escaping the crisis and re-establishing stability. Measures to improve the state of the world must go beyond quick recovery solutions and standard answers. Trade unions insist that we must learn from past mistakes to avoid further social and political instability and strive towards working in unison for a more inclusive, accountable and sustainable society. Employment growth must go hand in hand with economic growth; the notion that a jobless recovery could be fuelled by unfavourable deregulatory structural change is not a policy option. At a national level, trade unions need guarantees of their rights. In the US, it is essential that the Employee Free Choice Act (EFCA) be passed rapidly by the US Congress and enter into law, to

- end years of obstacles to freedom of association. Internationally, governments should facilitate the negotiation and effective implementation of social dialogue and framework agreements between global union federations and multinational companies.
8. Tackling the rocketing level of unemployment around the world requires the following urgent and immediate policy measures:
 - Further coordinated interest rate cuts;
 - Fiscal stimuli to achieve large-scale increases in wage and household disposable income growth to revitalise the real economy and create jobs;
 - Infrastructure investment programmes to stimulate demand growth in the short term and raise productivity growth in the medium term;
 - A “Green New Deal” to create decent jobs through alternative energy development and energy saving and conservation;
 - Spending on public schools, health services, and care for the very young and the aged;
 - Strengthening of unemployment benefit and other social security schemes;
 - Tax and expenditure measures to support the purchasing power of low income earners;
 - Expanded emergency loans through the IMF to developing countries without austerity conditions;
 - More development assistance to help meet the Millennium Development Goals (MDGs);
 - Assisting countries facing food supply crisis situations through action to counter speculation, extend urgent support to the poorest and rebuild buffer stocks.

 9. A new structure of economic governance for the global economy must be established. This must go beyond financial markets or currency systems to tackle all the imbalances of growth and capital flows that contributed to the crisis. Just as the post-World War II economic settlements included the strengthening of the International Labour Organisation (ILO), in parallel with the creation of the United Nations, the new “post-crisis” settlement must address international economic governance. Governments must start work on the necessary structures and once again, in line with the “Social Justice” Declaration adopted by the International Labour Conference in 2008, the ILO must be at the heart of the new architecture. And this debate should not be held between bankers and finance ministry officials, behind closed doors. Labour must have a seat at the table.

 10. International cooperation to cope with the crisis must go far beyond what is currently under consideration – reviewing prudential rules for banks and ‘encouraging’ more transparency can be one of the ways to achieve financial stability. It is the national and global regulatory architecture that needs to be restored so that financial markets return to their primary function: to ensure stable and cost-effective financing of the real economy. The leaders present at Davos must authorise work to begin on a blueprint for re-regulated financial markets, which must include:

- 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 credit risk-related off-balance sheet transaction;
- Submitting foreign investments and capital flows to proper domestic regulation, including observance of internationally recognized 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, combating regulatory arbitrage within large financial groups and between jurisdictions and putting a cap on excessive leverage of portfolio companies;
- Introducing action plans to protect jobs at risk in private equity-owned companies through ongoing investment solutions to avert bankruptcy and save jobs, the development of which must involve trade union representatives in addition to other parties concerned;
- 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.

11. The world needs stability, economic reform and renewed growth. And understanding the causes of the crisis is essential if a "post-crisis" world is to become attainable. It is therefore imperative that the proposed recovery packages and innovative solutions are also designed to redress the underlying fundamental economic imbalances that have produced the current crises. These are notably the imbalance between the US and other parts of the global economy, the imbalance between finance and the real economy and the imbalance of bargaining power between workers and their employers. Those economies that have surpluses should redirect them to supporting domestic consumption and productive public investments.

12. Change however also implies that growth takes place under sustainable conditions and benefits all parts of society, while leaving no one behind. The

world of work stands to be fundamentally changed or even to deteriorate because of mounting global recession. The severe consequences, such as job losses and lower real income for workers, are permanent problems that require permanent, long-term solutions. The world community must prioritise employment when trying to revive economic growth – only by fully respecting and promoting trade union rights can workers improve their living standards. Investors in private equity buy-outs, activist hedge funds and multinationals should abide by the highest ethical standards and ensure that international social standards are met in full. Employees in these companies must receive the protections of ILO employment standards and have them enshrined in Global Framework Agreements. The companies and investors must acknowledge workers' stake in the future of the company and afford them protections under the ILO core labour standards, rights to consultation and the right (recognised in the Universal Declaration of Human Rights, *inter alia*) to belong to a free trade union, as part of a positive attitude towards trade unions, collective bargaining and mature industrial relations.

WEF 2009 sub-theme: Ensuring Effective Global, Regional and National Governance for the Long Term

13. The time is right to restructure the global financial and economic architecture through a new set of 'Bretton Woods' negotiations that go beyond the exchange rate regime created at Bretton Woods in 1944. None of the existing institutions has the scope or the credibility to put in place such a structure. Governments must start the work, but the debate must not be held between bankers and finance ministry officials, behind closed doors. Trade unions represent the working families across the globe who are the victims of the current crisis and must be present at the table.
14. 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. The role of public sector regulators in ensuring transparency, accountability and participation is of paramount importance. Young people are being hit the hardest because of investment and budget cut-backs, growing unemployment and the credit crunch. If we do not address this seriously, more social upheaval like that we witnessed in Greece in December 2008 could be a direct outcome.
15. The institutional governance reforms must go beyond financial regulation and introduce economic management aimed at reducing the imbalances in the global economy. The persistence of structural current account and exchange rate imbalances within the OECD (particularly between the US, the Euro area and Asia) and imbalances with emerging economies have also contributed to the crisis. Emerging economies' accumulation of dollar holdings – and increasing investment by sovereign wealth funds (SWFs) – has provided much needed equity recapitalisation for badly hit banks and financial institutions. However, risks loom of disorderly adjustments – a brutal reversion of capital flows away from the dollar area in the face of continuing uncertainty in the US.

16. Trade has the potential to boost economic growth, recovery and development, but only under the right conditions. Restoring the public legitimacy of the world trading system and concluding the Doha Round requires simultaneous progress on the enforcement of the protection of fundamental workers' rights through all international institutions, including the WTO, and on ensuring that developing countries are able to achieve economic recovery, employment and future industrial development.
17. A new, effective governance structure must encompass emerging and developing country governments. 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. Both IFIs must also put an end to the economic policy conditionality that has characterised their interventions in developing countries over the past three decades. This has minimised rather than strengthened the application of fiduciary controls and respect for internationally agreed standards, including core labour standards. The deregulation, liberalisation and privatisation conditionalities of the IFIs, in addition to interfering with countries' own policy choices, have frequently led to serious and damaging impacts. This approach must be changed as cuts in public spending on healthcare, education and water will maintain these countries in deep poverty..The normative standards of the ILO, and notably core labour standards, must underpin the new governance system.

WEF 2009 sub-theme: Addressing the Challenges of Sustainability and Development

18. Wage declines and inequalities in the world are getting larger, according to recently published ILO and OECD reports. The challenge of creating a more inclusive society remains unsolved but trade unions are determined to turn the tables. This requires that governments in the industrialised countries start to encourage and rebuild the institutions that help distribute income and wealth more fairly, as opposed to the continuing call for deregulation of labour markets and the dismantling of workers' protection.
19. The crisis of distributive justice is more strongly apparent in non-OECD countries. Even before the food price crisis of 2007-2008 and the current financial crisis, the World Bank noted that in 46 developing countries out of 59 examined, inequality had increased over the previous decade. The worsening economic situation, on top of the explosion in food prices over the past year, will further accentuate income inequality and add to the deficit of decent work across the developing world. The situation has not improved since last year's World Economic Forum where labour leaders warned repeatedly about the diminishing share of income going hand in hand with increased wage inequalities, causing a decline in consumption and leaving workers with less means for education and health care expenses.
20. The dangers of growing inequality across the globe stand to feminise poverty to a greater extent than earlier. Women in the developing countries are among the losers from the gambling stakes that came with the casino economy. Female-headed households are among the poorest of the poor and in order to alleviate

- this problem, a targeted approach must be taken to improve maternal health, child mortality and to invest in education and gender equality of land ownership.
21. Working towards universal social protection must become a primary challenge for world leaders in 2009. The food price crisis of 2007-2008 illustrated the urgent need for sustainable and just investments, both in agriculture and at the labour market; investments that can serve citizens, workers, unemployed and vulnerable women and men. Investments in social security remain an effective tool in alleviating poverty, hunger and inequalities but those investments have not reached 80 percent of the world's population, which is the percentage of people working and living without social security nets. The ILO reports that it is possible, even in the least developed countries, to finance minimal social transfers to combat poverty. A social security package consisting of a modest pension, child and health care benefits can make the difference between succeeding or failing in eradicating extreme poverty by 2015.
 22. At present, most of the Millennium Development Goals (MDGs) are not likely to be reached in time while the gains achieved so far are in jeopardy. More than halfway towards the target date of 2015, the vicious circle of poverty stands to be left unbroken. Neither is the proportion of people in sub-Saharan Africa living on less than US\$ 1 a day likely to be reduced by the target of one-half, nor will full and productive employment and decent work for all, including women and young people be achieved in time. Global labour urges world leaders to get back on track, to ensure a commitment to the MDGs – nothing less is acceptable – and for all industrial countries to allocate 0.7 percent of GNP as official development assistance. A target which the Financing for Development Conference in Doha, Qatar 2008 failed to achieve.
 23. Strong action is also required to stem the loss of revenues to tax havens. Every year hundreds of billions of dollars flow out of developing countries to the industrialised in the form of debt repayments as well as capital flight. Such outflows are undermining growth and stability and depriving developing countries of vital income resources because no taxation of the outflows takes place.

WEF 2009 sub-theme: Shaping the Values and Leadership Principles for a Post-Crisis World

24. In dark and desperate times, the world needs courageous leadership based on democratic values and innovative ideas. We are not in a position to allow the same old structures and machinery to continue the path taken for so long. If a “post-crisis” world is to come within reach, international cooperation must be put forward in a manner that goes for coping with the triple crises of food, finance and climate.
25. The opportunity should be taken to launch a “Green New Deal”. A sound basis for this is set out by the United Nations Environment Programme (UNEP), the ILO, the IOE and the ITUC in the Green Jobs report. This is the time to aid economic recovery through environmentally responsible investment designed to create jobs in the short-term, including for youth and women, at the same time as reducing greenhouse gas emissions. Measures to promote energy saving through retrofitting buildings will be particularly employment intensive, thus supporting the hard-hit construction industry. Public investment in infrastructure,

- mass transportation, and alternative energy sources will also stimulate green job creation. Long term and productivity enhancing investment in public infrastructure – schools, hospitals, clean water and sanitation as well as public transport and energy – will not only help national economies to avert or climb out of recession, but will lay the basis for millions to overcome poverty. This requires leadership, hard work, political determination and the willingness raise the stakes on bold solutions.
26. One of the primary tasks of 2009 must be to restore balance and trust of people in the financial system. The policies – or rather the lack of policies – that lead to the crisis cannot continuously be defended. The economy needs a new starting point, seeing that the deregulated world turned out to fail us all. We need a globalised world that values political accountability and growing social cohesion.
 27. The labour leaders and trade unions of the world are ready and willing to take part in finding the solutions for a just and democratic system of governance that is based on values of democracy, accountability and social justice. Both public and private actors have the responsibility to ensure that we live in a stable society with renewed economic growth. And in order to make the global economy serve the people of the world, it must become more inclusive with a fairer distribution of wealth and it must become more supportive of social priorities, such as social protection and decent work.
 28. Leadership to tackle a “post-crisis” world must encompass coordinated reductions in interest rates by central banks in Europe and the US. Fiscal stabilisers, such as unemployment benefit schemes, must be strengthened and supplemented by direct job creation schemes, where necessary. Fiscal stimuli should target increases in aggregate demand of sufficient magnitude to revitalise the real economy, boosting employment and wages and so leading to growth in household disposable income. It requires audacity to target tax and expenditure measures at low and middle income families, those who are suffering most in the current situation and who, having higher consumption rates, will feed this back into consumption, production and hence employment most rapidly. The solutions are there but can we say the same about the leadership?

WEF 2009 sub-theme: Catalysing the Next Wave of Growth through Innovation, Science and Technology

29. Only by cooperating internationally can the world ensure that climate change challenges are handled in an adequate and responsible manner. By investing in a gradual transition towards renewable sources of energy, hundreds or even millions of jobs relating to innovation, science and technology can be stimulated. Already 2.3 million jobs in the renewable energies sector exist and 4 million green jobs in the US and the EU based on improving energy efficiency in buildings can be created as an intervention to reduce climate change. Whilst development, and thus growth, can receive a much needed boost through these measures it cannot be done without substantial investments. Promises from world leaders not to cut public spending are required because otherwise we risk further economic downturn. By ensuring a future wave of green jobs, we can pave the way to renewed sustainable and environmentally responsible growth.

30. Beyond infrastructure, this is also the time to invest in people – in their education and health, and in care for the very young and the aged. According to the World Health Organisation (WHO) there is a need for 4.5 million new health care workers at the global level. 18 million new teachers must be trained just to meet the goal of quality education for all primary age children by the year 2015. Millions more teachers and instructors are needed for vocational education and training for skills that underpin the real economy and for retraining of working people as economies restructure. Only by investing in people can the next wave of growth be given the springboard it needs

WEF 2009 sub-theme: Understanding the Implications on Industry Business Models

31. The repercussions of the current world business model are visible to everyone: global recession, hundreds of millions of people unemployed, growing inequality and the failure of neo-capitalism. For two decades most governments, together with the IFIs, have promoted the lightly regulated ‘new financial architecture’ that has characterised the global financial markets responsible for this crisis: irresponsible deregulation that favours excessive leverage of financial institutions – including investment banks, hedge funds and private equity – and the ‘financial innovation’ of securitised credit risk transfers that exported bad debt under the guise of structured products. The business of structured finance created the illusion of low risk, low-cost capital. As the crisis revealed, risks were not spread but hidden. Coupled with ‘pro-cyclical’ banking accounting rules and rigid capital requirements, the credit crunch that followed the collapse of the structure finance industry created a self-perpetuating, asset depressing process in the banking sector.
32. We have an unprecedented capacity to alter the failed business model that currently predominates. More regulation in the financial sector is needed and labour leaders propose that the regulatory gaps that benefit speculative hedge funds and private equity groups be closed and savings instead reoriented towards productive investments. One important measure would be an international regime for taxing financial transactions, a proposal not yet accepted by world leaders, from which the proceeds of taxation could help support financial institutions with social objectives such as pension institutions that provide decent retirement incomes for those in need, or enable genuine development projects so the least developed countries can enjoy the benefits of growth.
33. We, the labour leaders of the world, are present in Davos to engage in dialogue and ‘think outside the box’ when it comes to achieving a “post-crisis” world. There is a risk that new re-regulation will be undertaken by the same people who have been responsible for the financial and economic crisis in the first place. A new global financial governance structure must be inclusive, democratic and transparent – only then can we restore people’s confidence in the economic system and strengthen the social dimension of globalisation.