Address by Sharan Burrow, General Secretary International Trade Union Confederation to the Lowy Institute for International Policy

A precarious world in need of an effective G20

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Ladies and Gentlemen,

The global economy is no more stable today than it was six years ago and the scourge of unemployment and inequality is driving economic instability and social despair.

In 2010 global growth stood at 5 percent and it was described as the 'green shoots' of recovery, but in hindsight it was the highlight of concerted action. The IMF just last month again revised down global growth projections to a mere 3.1 percent. With the Eurozone in continued recession and slow growth in the US the drag on the BRICS countries is the latest casualty. With projected growth for Brazil at 2.5 percent and with another percentage point off China's growth there is an urgent need for leadership. No nation is an island in today's globalised economy.

We are, at best, facing an era of prolonged stagnation. Added to this, the increasing failure of multilateralism must be a call to action for G20 leaders. From the IMF to the UN, the failure to understand that the global economic crisis, caused by greed and inequality, required a social response of equal or greater urgency to that of bailing out the financial sector has generated a tidal wave of mistrust in institutions.

For the state of the world for working people and their families is very bleak. Unemployment is again rising above 200 million and youth unemployment is a problem in every nation. For crisis countries and developing nations facing continuing unemployment with youth unemployment levels of 30 to 60 percent societal tensions are in ferment.

The ILO estimates a need to create 600 million new jobs in the next 10 years. Without a determined approach to rebuilding economies with sustainable jobs and social protection at the core of a coordinated global effort, we are facing an economic and social time bomb.

The ITUC presented an economic and social outlook based on the ITUC's 2013 Global Poll, inclusive of China and India, and covering more than half of the worlds’ population to the

G20 Labour and Finance Ministers joint meeting in Moscow last week. It paints a frightening picture.

More than half of the world population say their incomes have fallen behind the cost of living, in the last two years.

Almost two out of three people rate the current economic situation in their country as bad.

Global citizens feel abandoned by their governments because they are seen as failing to tackle unemployment and prioritise business interests over the interests of working families.

80 percent of all respondents say their government has failed to effectively tackle unemployment in their country. Even significant numbers of people in the BRICS countries and in Germany say their governments have failed to tackle unemployment. Only 13 percent of voters believe their government is focused on the interests of working families.

Over half the world's population don't feel they have legal protection for job security. 66 percent don't feel they have legal protection for fair wages. In Spain, China and Japan the majority of people think they do not have protection for reasonable working hours.

Of critical concern is that only 13 percent of people feel that their governments are acting in the interest of people and even more worrying almost 30 percent of people say their governments are not acting in the interests of either people or business. When you consider this with the 2012 findings of the ITUC Global Poll that only 13 percent of people believe that they have any influence over the economic decisions of their governments, and marry such with increasing social unrest, then the disenchantment and worse the disengagement is undermining confidence in democracy. The loss of trust is serious and must be addressed.

Our message for the G20 is obvious. We need a plan - we need hope. This requires jobs jobs and jobs; jobs, decent wages and social protection.

Tragically, the demand for jobs, while recognised in communiques has gone unheeded in terms of co-ordinated action. Despite the anger and frustration we feel concerning the perpetrators of the crisis and equally failed austerity policies the reality is we need to rebuild our economies with jobs - income led growth in a cleaner and greener future - if we are to secure an inclusive and sustainable global economy.

In this regard the Business 20 and the Labour 20 are united in our call for investment in infrastructure, particularly enabling green economy infrastructure.

The L20 has called for a coordinated target of 1 trillion Euro - less than half of the money given to bail out the banks. And unlike the banks we do not demand that all this money comes from government, but we do need government leadership.

Indeed we have called repeatedly for a new investment model. With 25 trillion dollars of workers capital invested in the global economy we want our money out of the speculative economy and into patient capital. It is time to push the reset button on our pension funds and draw a line between investment and speculation

Let me return to further demands for the Russian G20 and the Australian Presidency but first consider the history of both hope and despair that characterises the G20 leaders meetings.

We have been at all of these meetings and met with the majority of presidents or prime ministers as well as the heads of international agencies at each of these meetings.

In 2008, the Washington meeting was an anxious dance of possibility dogged by the dominant but waning presence of George Bush. However the tactical cry from Dominique Strauss-Kahn was heard and a commitment to coordinated stimulus was born.

London drove new levels of ambition. Gordon Brown was a G20 activist and had the support of the majority of leaders, including Australia's Prime Minister, Kevin Rudd. The original Sherpa's text was cautious but the leaders themselves were not and the outcome was optimistic.

You will recall that famous quote from Gordon Brown, echoed by others that 'never again will the financial sector be in control of the real economy.' The ambition was there: financial regulation, jobs, the green economy and the inclusion of the ILO and the OECD in addition to the IMF. London indeed set a tone of optimism for global leadership.

Pittsburgh was equally ambitious with Obama's commitment to jobs - 'quality jobs will be at the heart of the recovery' was his rallying call. He had sponsored the first G20 Labour Ministers meeting with both business and labour gaining consultative status and heeded their advice. There was renewed optimism. Indeed it was the Labour Ministers who called for joint action with Finance Ministers but we would have to wait until Russia for that.

But just six months later in Toronto key leaders had gone or were distracted and the policy of austerity was born. It was Angela Merkel supported by the OECD, in the absence of Gordon Brown, Lula and Kevin Rudd, who, at our entreaty ensured a commitment to quality jobs.

In Seoul the talk was of growth but not of jobs. It was a strange meeting with the President of Korea when we needed to provide an historical analysis of the previous 15 years of increasingly jobless growth to convince him that you could not assume growth equalled jobs and decent work.

It was in fact Australia's Prime Minister, Julia Gillard who brought us the marked up copy of the communique where she had, with others, negotiated commitments to quality jobs.

But the evidence was already in; from London and Pittsburgh to Toronto and Seoul, or between 2010 and 2011 the almost religious fervour of coordinated global action had been replaced by the failed economic policies of the previous decades of IMF conditionality. Consequently we saw divisions emerge in the G20 as America and China both declined to follow Europe's path.

Australia continued its path with the common sense to set fiscal consolidation targets to be reached over time and successfully rowed through the worst of the crisis with targeted investment, jobs and income policies, and only marginal slowdown in demand from China.

Nevertheless unemployment was deepening. Dominique Strauss-Kahn could see the risks and in 2011 after serious consultations with union leaders in January of that year we put aside differences and in April at the Brookings institute in Washington jointly called for coordinated action on employment. Sadly, a wasted effort!

Hence with serious union opposition to austerity emerging in Europe it was indeed with some trepidation that I led the first labour meeting with President Sarkozy late in 2011 at the start of the French G20 Presidency.

To our great surprise he was increasingly concerned about the social risks and pledged to support employment, labour rights, social protection and coherence. It was in this framework that unions and employer organisations constructed the platform for global social dialogue with an L20/B20 agreement based on these fundamentals. It remains a joint commitment to a floor of principles for the social dimension of the global economy on which we have since negotiated additional specific demands.

On the surface the Cannes Declaration looked like coordinated action was back with a commitment to employment, decent work and social protection floors but the tragedy of Greece dominated the agenda. A nation with an economy of just .2 percent of the global economy was a trigger for the disasters to come. Instead of containment the orthodoxy of IMF and EU conditionality simply embedded contagion and the social and economic crisis we see in Southern Europe today. Rather than recovery in crisis countries the evidence is a slump in GDP, unemployment at crisis levels, a lost generation of young people, social unrest and higher debt to GDP ratios. The old IMF was reborn, the ILO/IMF commitments of Oslo abandoned and new partners, the European Commission and the European Central Bank emerged in the now infamous 'Troika'.

With no effective financial regulation in sight, the unregulated ratings agencies, acting in concert with the vigilantes in the bond markets, set themselves up as arbiters of nations' fortunes and governments, at the behest of international institutions, went to war on their people. Wages and jobs slashed, collective bargaining and minimum wages attacked along with key social protection measures - a luxury that apparently could no longer be afforded from taxpayers own money.

The cowboys in the financial sector who caused the crisis got off scot-free, no one went to jail for perpetration of fraud relating to toxic products, banks were bailed out with taxpayers funds and working people and their families found themselves in the frontlines of failed 'structural reforms'.

This is the backdrop to the Los Cabos summit under the Mexican Presidency of the G20. Again we were surprised by the commitment of President Calderon to investment in jobs, in the green economy, social protection and inequality.

The L20 - B20 agreement called for three practical initiatives; investment in jobs in infrastructure and the green economy, inclusion of young people through scaling up apprenticeships and extending the model to female dominated sectors and measures to reduce the informal economy - now at 40 percent of global output and withering both sustainable business and decent work.

Meeting with some 14 leaders in Los Cabos and presenting, with business to a leaders breakfast, gave us a sense of shared frustration but the tensions among leaders was also becoming more evident with the US and Europe taking different economic pathways and the BRICS countries seeking coordination amongst themselves in an attempt to stave off contagion for their own economies.

Our assessment is stark. International institutions have failed; austerity and conditionality have created impoverished nations with increases in both unemployment and inequality and an open attack on workers' rights. Institutions appear to have conveniently forgotten they failed to prevent a financial sector crisis which became a debt crisis at their insistence to use tax payer dollars only to then demand that the successful social contract emerging from the great depression and world war two be torn up with no negotiation and no eye to the resulting social or economic impact. Economic crisis has, at the hands of these institutions, bred economic dictatorship with no respect for rights and no signs of recovery.

Despite promises the new IMF is the old IMF. Even their own research shows that austerity in not working.

The announcement by Olivier Blanchard in the annual meeting in Tokyo last year admitted they had miscalculated the multipliers and that the negative impact of measures in Europe was more severe than expected.

In April as backdrop to the IMF and WB meetings the very premise of research by Reinhart and Rogoff, research that underpinned the dominant policies, was challenged by Thomas Herndon, Michael Ash and Robert Pollin of the University of Massachusetts. They say they found some simple miscalculations or data exclusions that sharply altered the ultimate results. According to their rerunning of the figures, "the average real G.D.P. growth rate for countries carrying a public debt-to-G.D.P. ratio of over 90 percent is actually 2.2 percent, not –0.1 percent," they assess. In other words, heavy debts were not associated with the malaise that Professors Reinhart and Rogoff — and much of the world's economic elite — thought that they were.

And Laurence Ball, Davide Furceri, Daniel Leigh, and Prakash Loungani in June 2013 examine the distributional effects of fiscal consolidation for a sample of 17 OECD countries over the period 1978–2009. The findings - 'fiscal consolidation has typically had significant distributional effects by raising inequality, decreasing wage income shares and increasing long-term unemployment' .

Thus while we all agree fiscal consolidation over time is prudent management, the social and economic destruction wrought by pro cyclical austerity lacks even a credible academic base.

In addition the financial sector has escaped vital reforms to date.

Four years after the commitment by the G20 leaders in London to re-regulate global finance, The Financial Stability Board (FSB) and its members – G20 finance ministries and central banks, the European Commission and several international organizations such as the BIS, the IMF, the OECD and the World Bank – have collectively failed to meet deadlines.

All standardised over-the-counter (OTC) derivative contracts – which are traded at 10 times world GDP – were to be traded on exchanges or electronic trading platforms by end-2012. Deadline missed!

OTC trading is still not regulated, not supervised as agreed yet trading is at record high and still largely disconnected from the value of the underlying assets. According to the Bank for International Settlements (BIS) the global value of all OTC derivatives market was at USD630 trillion at the end of December 2012 - the same level as 2007!

The US and the European Commission has some commitment to a coordinated set of reforms across the Atlantic but only a small step, and one that comes very late.

Government Leaders also committed to increase both quality and quantity of capital held by banks as collateral to their assets and lending. Yet the new framework, Basel III, has been criticised by many – including the OECD – for being too complex and too reliant on self-reporting and self-assessment by bankers themselves. The phase-in of Basel III spans almost a decade to full implementation by 2019 and yet several G20 countries are already behind schedule!

Work is only just beginning on “shadow banking”: the opaque world of collateral default obligations and overnight ‘repo’ lending market!

And no real recognition of the distortionary costs of high frequency trading equals no action!

Above all separating the “ too-big-to-fail” banks was a public rallying call. It was agreed that there were systemic risks to the entire financial sector. The G20 has an official list of 29 banks considered to be globally systematically important. But “ending TBTF” consolidation is unlikely to be fulfilled any time soon. Their market power has increased post crisis. In all major OECD economies, assets held by the largest banks as a share of GDP rose significantly in the run up to the crisis, and have continued to do so post-crisis. In the US, JP Morgan Chase, Bank of America, Wells Fargo and Citigroup issue half of all mortgages and two–thirds of all credit cards. They held over a third of all bank deposits in the United States in 2009. It is a similar picture for European TBTF groups. And as self interested institutions they are spending enormous sums to lobby against reforms!

There have been similar concentration trends in the derivatives markets. In 1998, the derivatives forward rate market was dominated by some 30 banks, of equal size, in 2010 the market was dominated by 15!

G20 countries also committed to implement legislation on “resolution frameworks” by end-2012 to allow government to take pre-emptive action before a bank collapses and hence avoid costly bailing out. Deadline missed with the FSB acknowledging that “significant work remains”!

The US (Dodd-Franck Act) and the UK (Vickers Commission) have directed reforms but they are limited and not likely to be accepted globally.

A few countries have moved on taxation with bank levies now relatively common across Europe but the under-taxation of the financial sector is still a reality today. It is also because of the under-taxation of the financial sector that the labour movement strongly supports the creation of financial transaction taxation of global scale. FTTs exist already in a number of countries. In January 2013 the EU Finance Ministers gave the green light to 11 Member States representing 2/3 of EU GDP to establish a common FTT. Yet the European FTT has been and continues to be strongly opposed by banking and asset management groups.

On a more positive note, there is some renewed interest for long term investment at the G20 level and in other international forums. The G20 should adopt "High Level Principles of Long-Term Investment Financing by Institutional Investors" when it meets in September 2013. This new agenda on long term investment is much needed – it will help institutional and workers' pension fund move away from short-term investment and increasing exposure to long term projects financing infrastructure, job creation and helping meeting climate change challenges.

With this evident lack of progress, a global growth and unemployment crisis and increasing inequality, Russia has established significant priorities with job creation, labour activation and monitoring of progress. The innovation of a joint Labour and Finance Ministers meeting demonstrated some commitment to coherence. The agenda is, again, not the issue but with ambition constrained by an overriding priority to just manage the process the jury is out on coherent commitment to coordinated action.

The Australian G20 must re-establish trust. Re-establishing trust requires a recommitment to coordinated concerted action with recognition that national policy is critical but not enough. It also requires inclusion of the representative voices of developing nations beyond individual invitations.

There are key areas of policy and governance where Australia' experience demonstrates pathways for successful outcomes. These include:

government action to prioritise jobs at the onset of the 'great recession', # youth inclusion including the youth guarantee, apprenticeships, skills management and industry partnerships # productivity vs competitiveness # a demand floor with minimum wages and social protection # robust collective bargaining, # climate justice, and # just taxation measures.

And the ITUC Global Poll 2013 tells us the worlds' people support a five point plan towards reducing uncertainty and inequality that is very much in line with these areas of focus - a plan offering hope for billions of workers:

1. **Jobs: Investment in infrastructure, new green technologies and industries.** 92 percent of people support investment in education, research and new technologies to create jobs, develop new industries and reduce unemployment. 88 percent of respondents support investments in clean energy and environment related industries.

2. **Fair wages: ensure reasonable wages through fair prices**. Half the world's population think prices of goods and services must reflect the cost of reasonable wages for the workers who help to provide these products.

3. **Strong labour laws:** including the right to strike supported by 99 percent of people, a minimum wage, the right to collectively bargain and the right to join a union. More than 90% of people say workers across the world should receive reasonable wages and be able to work under decent working conditions.

4. **A social protection floor:** governments must step forward and protect the interests of workers and their families. 90 percent and above support for active income measures which help to reduce inequality, such as decent unemployment benefits and pensions, affordable access to education, health and childcare.

5. **Make large companies pay their taxes.** Global citizens want tax evasion to end. They are also open to raising taxes for large companies with more than 80 percent of people in support of measures to stop tax havens and increase taxes on big business.

However an on-going commitment to global coherence based on such priorities must be a certainty and result in coordinated action. The serious breakdown in trust of institutions requires coordinated action and with an often chaotic and increasingly ineffectual leadership of the UN, will the G20, step up?

If it is to do so the ITUC believes there is an absolute need for international architecture to ensure the potential for an effective G20. Aside from the FSB, concerning financial regulation, there is no home for policy development, monitoring and support of commitments. We had great hope for the 'Mutual Assessment Process' but it is a mere shadow of the original intent as nations watered down independent evaluation and failed to include employment and social protection as risk factors.

Will Australia put coordinated action and governance back on the table to ensure jobs, a new investment model, social protection, financial regulation, climate justice and rights or will the G20 simply result in more communiqués and greater loss of trust.

The ITUC, in cooperation with the ACTU here is Australia, as the L20 will continue to engage with both government and business but a reinvestment by the leaders themselves must drive ambition and implementation to ensure hope.

The alternative is frightening.

Sharan Burrow
General Secretary, International Trade Union Confederation