



INTERNATIONAL TRADE UNION CONFEDERATION

## **GENERAL COUNCIL**

Brussels, 16 - 18 December 2008

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### **Agenda item 8:**

#### **The Global Economy in Crisis**

##### **The General Council is requested:**

- **to endorse the Global Unions “Washington Declaration” to the G20 Crisis Summit ;**
- **to consider trade union responses to the deepening world financial and economic crisis; and**
- **to decide on a programme of actions for implementation by the General Secretary and for reporting back to the General Council’s next meeting in October 2009.**

**Agenda item 8:****The Global Economy in Crisis****Introduction**

1. As the General Council meets the global economy faces its worst crisis since the Great Depression of the 1930s. Over the last months of 2008 there has been a spectacular worsening in world economic and employment prospects, leading the International Monetary Fund (IMF) to forecast that 2009 will see the worst global economic performance since the second world war. According to many economists, even these grim predictions fail to take adequate account of the full impact of financial failures on the real economy. Each day brings more news of financial and economic deterioration or contraction and there are no credible indications as to when the deepening recession will come to an end, nor how far the world economy stands to decline.

2. For many years, trade unions had criticised the inequitable model of globalisation based on a combination of lax financial regulation, “casino capitalism” and growing inequality that ultimately led to the crisis. The governments of the world’s major economic powers were slow to react in a coordinated manner but belatedly, leaders of the G20 countries<sup>1</sup> held a “Crisis Summit” in Washington D.C. on 15 November 2008. The ITUC together with TUAC organised parallel trade union meetings hosted by the AFL-CIO and met with leaders of the G20, the IMF and the World Bank to build pressure in support of trade union proposals to tackle the crisis.

3. This document provides General Council members with further information on the nature of the crisis and on the results of the G20 meetings held in Washington. It concludes with proposals for a series of potential trade union actions for debate by the General Council. The Global Unions “Washington Declaration” to the G20 Summit, an ITUC/TUAC Evaluation of its outcome, and the G20 Leaders’ statement itself are provided in annex.

<sup>1</sup> The G-20 Group was established in 1999 to bring together systemically important industrialised and developing economies to discuss key issues in the global economy. It comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the US, as well as a representative for the European Union as such.

## **Summary of Global Economic and Employment Prospects**

4. The current economic crisis began in the United States as a consequence of inadequate regulation that enabled financial speculation to increase astronomically. In conjunction with an unsustainable housing market “bubble”, many commentators including the trade union movement had been warning for years that a collapse in asset prices was just a matter of time. But even if inevitable, the interaction of these various factors now makes for a particularly complex and dangerous dynamic in the real economy. Falls in GDP are forecast for the US and the Euro-zone for most of 2009 and the crisis is spreading to emerging and developing economies increasingly quickly. Several governments have already had to request emergency loans from the IMF as their financial sectors become paralysed, capital flows out of the country, currencies collapse and economic growth comes to a standstill. This comes on top of the unprecedented rise in food and commodity prices earlier in the year and the resulting food crisis in developing countries. It also occurs against the background of accelerating climate change which, without rapid action, will undermine the basis of sustainable jobs, growth and prosperity.

5. The ILO forecast in October 2008 that global unemployment would 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 110 million. Unemployment rates in the OECD are forecast to jump by 20% in the six months ahead, although this may well prove to be an underestimate. In many emerging and developing countries, massive job cuts are taking place and real household incomes are falling. The problems are compounded by the reduction of remittances by migrant workers, many of whom are losing their jobs and in many cases stand to face repatriation.

6. In its report for the G20 Summit the IMF slashed its growth forecast even from the gloomy projections it produced just a month ago, saying that the industrialised economies would shrink by 0.3% next year, their first contraction since the second world war. The IMF said that global growth would slow to 2.2% next year, less than half last year’s growth rate and sharply lower than the 3 per cent projection it made a month ago.

7. According to the World Bank’s calculations for the G20 Summit, the growth slowdown will create 40 million more extreme poor in the world, adding to 100 million more poor people due to the food crisis earlier this year. The Bank’s analysis noted that most basic food and other commodity prices, expressed in US dollars, have decreased sharply from their mid-2008 spikes, but pointed out that with the exception of the Chinese yuan and the Japanese yen, almost all currencies have depreciated against the dollar since September, thus preventing lower dollar prices for commodities from translating into significantly cheaper food and fuel in most countries. Most food prices are forecast to remain extremely high into 2009.

8. The continuing worsening of the economic outlook makes it clear that the ILO’s October 2008 forecast on unemployment was a serious underestimate. Moreover, many commentators argue that the meltdown in the financial sector has hardly begun and that it is possible that only a small part of the financial market losses have so far been revealed – creating the prospect of an even greater impact on the real economy and on jobs. In short, while the global economy is now facing at the very least a serious recession, at worst a potential catastrophe is in the making.

## **National and International Measures and the Trade Union Response**

9. Governments initially reacted to a succession of ever more spectacular banking failures by striving to piece together purely national solutions through different forms of bail-out or banking rescue packages, including the US\$700 billion “Paulson Plan” in the US. The ITUC criticised this in a press statement of 30 September, calling for “concerted international action to stimulate jobs and growth so that the imminent danger of world recession is averted, and economies are launched on paths of just and sustainable development”. Such calls were mirrored by other trade union organisations such as the ETUC in its “London Declaration” and in many trade union statements at national level.

10. Following tentative discussions on occasions such as the IMF/World Bank Annual Meetings and in regional fora including the EU Finance Ministers’ Council, ultimately in late October under pressure from the French EU Presidency outgoing US President George W. Bush issued an invitation to G20 Heads of State or Government to meet for a one-day Economic Crisis Summit in Washington on 15 November. The ITUC and TUAC immediately began work in conjunction with the AFL-CIO to prepare a Trade Union Summit in Washington D.C. on 14 November to provide strong input to the G20 process, and drew up a set of trade union demands calling for a new paradigm for world economic governance, entitled the “Washington Declaration” (Appendix I).

11. The Global Unions “Washington Declaration” called on G20 governments to acknowledge the urgent need to begin work on a more inclusive, just and democratic system for the governance of global markets. It emphasised that trade unions must have a seat at the table and be part of the crucial negotiations that will be held in the different institutions during the months ahead, as must the ILO. It called on the leaders of the nations meeting in Washington to set in train a process including countries beyond the G20 that should encompass:

- a. *A major recovery plan* to stave off the risks of a global depression and to promote growth and decent work through: infrastructure investment programmes; a “Green New Deal”; tax and expenditure measures to support the purchasing power of middle and low income earners; and maintaining of development assistance budgets with a timetable to meet the UN target of 0.7 % of GDP;
- b. *Action to establish effective global economic governance* including the strengthening of the ILO and a seat at the table for trade unions;
- c. *Measures to increase international re-regulation of financial markets to ensure that a financial crisis on the current scale never happens again;*
- d. *Tackling the crisis of distributive justice* to combat growing inequality and achieve more balanced growth in the global economy between regions, as well as within countries with an enhanced trade union role to achieve more equitable division between capital and labour as well as between women and men.

## **Trade Union Meetings with G20 Leaders**

12. In the run-up to the G20 Washington Summit, meetings were held by trade union leaders with the Prime Ministers of the United Kingdom and Spain and the President of France. In Washington, trade union leaders from the G20 discussed the “Washington Declaration” with the heads of the IMF and World Bank and several heads of government and other high-level officials including the President of Brazil, Lula da Silva and the Prime Ministers of Japan, Taro Aso, and Australia, Kevin Rudd as well as the Italian Economy Minister.

13. The G20 leaders expressed agreement with or interest in many of the trade union proposals, and their broad support for the unions' demand that labour had to be involved in discussions of designing a new architecture for global governance. President Lula undertook to convey the "Washington Declaration" to the G20 Summit and emphasised his agreement with trade union demands for a role in the process, for financial re-regulation and employment protection and for ILO involvement in the review of institutional architecture. Prime Minister Rudd expressed his deep concern over the impact on the real economy and jobs and called for large-scale G20 action to put a floor under the markets, increase aggregate demand, address the financial regulatory agenda and tackle executive remuneration.

14. At the meeting with the Managing Director of the IMF, Dominique Strauss-Kahn, union leaders emphasised in particular the need for the ILO and trade unions to have a seat at the table in the design of a new multilateral system, and expressed concern about the economic policy conditionality that was again becoming associated with IMF loans, resulting in lower economic growth, reduced social programmes and deregulated labour markets. Strauss-Kahn spoke of a number of measures the IMF was taking in its programmes to respond to social concerns, including through changes to loan conditionality. He agreed with the importance of dialogue between the IMF and the international trade union movement in the important debates about resolving the global crisis, and committed the Fund to in-depth meetings with trade unions in January.

15. Meeting World Bank President Robert Zoellick, the union delegation emphasised in particular the vital role of decent work in combating poverty, the contribution that trade unions could make to maintaining wages and spending in order to stave off economic recession, and the need for the World Bank not to apply unacceptable conditionality in its loans to developing countries. Zoellick agreed on the importance of dialogue and drew attention to the way that core labour standards were now supported by the World Bank, particularly its International Finance Corporation (IFC). He highlighted the role the Bank could play in assisting developing countries to maintain their access to credit, and the need for an interconnected approach to the various aspects of the crisis including energy, food and climate change as well as its financial and economic dimensions.

### **The G20 Leaders' statement**

16. The G20 Leaders met for one day and adopted a 16-paragraph statement (Appendix II) accompanied by an "Action Plan to Implement Principles for Reform". A full ITUC/TUAC evaluation is attached (Appendix III). It should be noted that US President-elect Barack Obama did not attend, instead nominating two representatives to engage in informal discussions with representatives of the G20 governments.

17. While the G20 Leaders' statement called for "urgent and exceptional measures" to support the global economy, the text provided few concrete and immediate measures by way of either national or coordinated action and contained next to nothing on jobs, living standards or social development. Overall unions had been looking for a far more concrete and convincing description of the fiscal and monetary measures to be taken to address the employment crisis.

18. The G20 did propose to begin the process of reforming the Bretton Woods Institutions, recognising the need to increase developing country representation in them. The statement did not, however, say how this process is to differ from the modest

voting rights reform processes that the IMF and World Bank have themselves initiated over the past year.

19. Moreover, the G20 statement provided no acknowledgement of the need to give trade unions a seat at the table, nor mention of the role of the ILO despite its fresh mandate on the employment impacts of financial market policy set out in the ILO's Social Justice Declaration adopted in June 2008.

20. The bulk of the G20 statement and the attached action plan is devoted to setting out measures for "enhancing sound regulation" of financial markets. Their implementation is devolved to Finance Ministers from the UK, Korea and Brazil, who are mandated to "initiate processes", set out a "timeline" for action by 31 March 2009 and establish a road map for the review of global financial regulation to which governments can be held to account. If properly implemented, this could begin the process of re-regulating financial markets. The G20 statement does have the merit of acknowledging that there are regulatory gaps in the global financial system, which was not the case in past G8 statements. However it is not yet clear whether the G20 review will effectively tackle these gaps, and it is uncertain how speculative hedge funds or private equity groups are to be regulated. The risk is that the review stands to be undertaken by some of the same finance ministries whose lax oversight led to the crisis in the first place.

21. The statement promised to expand the 15-member Financial Stability Forum (FSF)<sup>2</sup> which currently has no developing country members. Overall, the IMF and the FSF were given the key macroeconomic and regulatory roles respectively. The expanded FSF, the IMF and unnamed "other bodies" were given a central role in the "new" architecture and charged with developing recommendations for strengthened regulatory regimes by 31 March 2009.

22. The G20 statement was silent on the fundamental need for the IMF to abandon the austerity conditions of the past and adopt 'positive conditionality', which assists countries to restore short-term growth, fair distribution of costs and benefits and long-term sustainability.

23. The statement underscored "the critical importance of rejecting protectionism [...] in times of financial uncertainty" and includes a commitment to "strive" for a successful conclusion to the Doha Round. It failed, though, to recognise the importance of protecting fundamental workers' rights and boosting development as part of this process.

24. The G20 leaders and their Finance Ministers are due to meet again on 2 April 2009 in London to review implementation of the decisions taken in Washington. President Sarkozy has announced plans to host a further economic summit in Paris on 8-9 January 2009, but at the time of writing it was unclear to what extent this was linked to the G20 process initiated in Washington.

25. It remains to be seen how the G20 will interact with the G8 process building towards the 2009 G8 Leaders' Summit in Italy in July 2009. The question of whether the G20 will now replace the G8 as the main arena for international discussion of economic issues remains open.

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<sup>2</sup> The FSF comprises representatives of treasuries, central banks and supervisors in important financial centres as well as some international financial institutions and is based at the headquarters of the Bank for International Settlements (BIS) in Basel, Switzerland.

### **Conclusions : Steps for Intensified Trade Union Actions**

26. In the weeks and months ahead, the ITUC and its Global Unions partners will need to maintain and intensify action at all levels in what will be a significantly deteriorating employment situation. As stated in the Global Unions' Washington Declaration, the lack of congruence between unregulated and unmanageable financial markets on the one hand and the financing needs of the real economy to provide decent work on the other has brought the global economy to the verge of catastrophe. There is scant reason for confidence that bankers and governments meeting behind closed doors will get it right this time either. Instead, there must be full transparency, disclosure and consultation to obtain a seat for trade unions and the ILO at the table in these meetings and institutions. The twin challenge for the ITUC is to alleviate the negative impacts of suffering at the same time as working to bring about the fundamental change in globalisation to which the ITUC is committed by the Vienna Programme.

27. Accordingly, the following series of actions are proposed for consideration by the ITUC General Council, in order to keep the international trade union movement on an emergency footing to confront the crisis effectively:

- i) As the crisis deepens, all countries stand to be increasingly affected by higher unemployment and poverty and threats to workers' real incomes. Trade union action at national level must encompass all ITUC affiliates, beyond the G20 countries alone. All affiliates need to present trade union proposals to their governments and to invite their response;
- ii) The ITUC and TUAC will work closely with Global Unions partners in interactions with the G20 process, to be chaired by the UK in 2009, and in organising trade union inputs towards its summits and other meetings and processes;
- iii) A key role will need to be played by the ETUC in influencing discussions in the EU and the European Central Bank;
- iv) Strong and high level trade union participation in the already scheduled biannual high-level meetings with the IMF and the World Bank (Washington D.C., 14-16 January 2009) stands to be of particular significance at this juncture: it will enable review of their role in response to the crisis and, particularly, to deepen discussion of the issues raised by the trade union delegation at the G20 meetings in November 2008. Subsequently, the run-up to the spring meetings of the IMF and the World Bank (25-26 April 2009, Washington D.C.) will require Global Unions to prepare a detailed but clear statement on "Achieving Economic Recovery" that would be circulated to all affiliates for use in interventions with their governments;
- v) TUAC will be discussing its actions at its Plenary Session on 11 December to be reported orally by its General Secretary to the General Council. In principle it is suggested that it should act as a clearing house for information on the real economy impact of the crisis, develop its work on financial re-regulation in the aftermath of the crisis and coordinate interventions to the OECD Ministerial meetings and towards the G8 meetings hosted by Italy in 2009 leading up to the G8 Leaders' Summit (La Maddalena, Sardinia, 8-10 July);
- vi) Attention will be given to the FSF which trade unions have not interacted with for several years, particularly if its membership is to be expanded beyond the industrialised world;

- vii) At the United Nations, Secretary-General Ban Ki Moon has nominated Joseph Stiglitz to chair a high-level UN task force “to examine possible reform of the global financial system, including the IMF and World Bank, in the wake of the current economic turmoil”. Interaction with this and with other UN processes, particularly in follow-up to the commitments undertaken at the Follow-up International Conference on Financing for Development in Doha, stands to be important;
- viii) The ITUC must endeavour to build the universal enforcement of fundamental workers’ rights into new multilateral architecture and needs to work closely with the ILO to maximise the effectiveness of interventions to obtain a place at the table for the ILO and to give full effect to the ILO 2008 Social Justice Declaration;
- ix) As negotiations proceed under the United Nations Framework Convention on Climate Change (UNFCCC) (see 4GC/E/9), trade unions must play their part to ensure the international community is not distracted from the necessity of concluding the climate change negotiations successfully at its 15<sup>th</sup> Conference of the Parties (Copenhagen, 30 November – 11 December 2009);
- x) It is essential that pressure stemming from the urgency cited under the G20 process does not cause a precipitate conclusion to the WTO Doha Round on an anti-development basis, particularly in its NAMA negotiations where trade unions are particularly concerned as to potentially disastrous implications for decent work, and strong solidarity from unions in both developing and industrialised countries is essential in that context;
- xi) In the light of the success of the World Day for Decent Work (see 4EB/E/12) and subsequent developments the General Council may wish to consider the value and viability of a further worldwide day of action to combat the crisis.

### **Recommendations**

#### **28. The General Council is requested:**

- **to endorse the Global Unions “Washington Declaration” to the G20 Crisis Summit ;**
- **to consider trade union responses to the deepening world financial and economic crisis; and**
- **to decide on a programme of actions for implementation by the General Secretary and for reporting back to the General Council’s next meeting in October 2009.**