Trade Union Statement to the G20 Finance Ministers and Central Bank Governors

17-18 March 2017, Baden-Baden

Almost a decade after the outbreak of the financial crisis, most economies are not succeeding in getting back to a pace of economic expansion that is sufficient enough to close the output and jobs gap. Wage levels, which suffered much following the 2008 financial crisis, remain depressed in many economies. Severe imbalances remain between “surplus” and “deficit” countries. In its latest Economic Outlook, the OECD raises concern about financial stability risks that could derail further the current low-growth trap: equity markets are ‘disconnected’ from fundamentals, serious risk of re-pricing of assets as a consequence of increasing interest rates, abrupt exchange rate movements, significant financial vulnerabilities from housing price bubbles, increased indebtedness of non-financial firms.

Post-crisis austerity measures and “trickle down” strategies have failed to engage recovery and re-build confidence of workers and their communities. They have achieved the opposite: sustain high inequality and depress demand further. Despite the flattening of productivity growth, the gap between real wages and productivity growth persists and remains substantial. While the middle class and lower incomes have experienced flat or falling real incomes for a decade or longer, a small elite has seen its income and wealth rise in often spectacular ways. These failures have led to important segments of workers and their communities losing out and having to face on their own increased insecurity about their job and their future.

The G20 Finance and Central Bank Governors should take coordinated action:

- To break out of the “low growth trap” and increase public investment in infrastructure, by the equivalent of 2% of GDP, focusing on quality job creation, improvements in productivity and the transition to a low-carbon economy; to that end making use of the “golden rule” excluding public investment from public deficit targets;

- to boost demand and purchasing power of middle and lower incomes by focusing on strengthening labour market institutions and progressive taxation in order to reduce income inequality; and

- to tackle global imbalances by coordinating “surplus” countries in increasing domestic demand.

On the medium term, policymakers have yet to create confidence in a global system that can achieve a more equal distribution of the benefits and the costs of a trade and investment agenda and of globalisation at large. Adjustment costs from trade liberalisation are real and not just a “perception”. A significant number of workers and their families do loose out from trade and investment deals. The way ahead is not with further trade and investment liberalisation, but fairer rules that work for all. It is essential to get the direction of causality right between trade and growth. The recent trend of trade slowing down is mainly caused by weak domestic demand (prompted by austerity, internal devaluation, debt deleveraging) not by a surge in protectionism. Ignoring this causality by trying to push for more trade runs the risk of falling into the 'competitiveness' trap where economies depress wages in order to try to export themselves out of the crisis which then ends up in deepening the global lack of demand, thus also further slowing down trade dynamics.

Despite the Financial Stability Forum efforts to coordinate regulatory reforms, ten years after the US "subprime" credit housing market, concerns remain about an oversized, badly regulated financial sector and about speculative and short termism behaviours in corporate board rooms and short termism in trading floors that generate disruptive capital and exchange rate movements. Past achievements in re-regulating finance, such as the US Dodd-Frank Act, are now at risk of being winded down. And yet, the impact of financialisation on the economy and on people is real and is multifaceted: financial instability, inefficient and costly financial intermediation, lower productivity, rising inequality and policy capture. And, it is feeding corporate short termism: corporate profits are diverted away from investment in productive assets and into dividends and share buybacks which have grown exponentially.

The G20 Finance and Central Bank Governors should commit to:

- Rebalancing foreign investors rights and obligations in trade and investment agreements through enforceable provisions, including ILO & OECD standards on responsible business conducts and corporate human rights due diligence, the repeal of ISDS mechanisms and reaffirming governments' right to regulate and to trade defence instruments that create level playing field and fair competition;

- Preserve the acquis of post-crisis financial reforms, and refrain from any winding down or de-regulatory measures; and

- To address the root causes of financial markets "herd behaviour" triggering disruptive capital and exchange rate movements and the implication of financialisation of economies on productivity, inequality and financial stability.