No 2 | June 2014

Economic Briefing

ITUC CSI IGB

TUAC

Content

Foreword

The April 2014 meetings of the IMF and OECD Ministerial Council Meetings in May attempted to give optimistic views of the global economic situation. Indeed, it is true that in some of the industrialised countries there has been a recovery in growth, but forecasts continue to be revised downwards. As this economic briefing (prepared by Carolin Vollmann, Economist at the ITUC) shows, the "recovery" is uneven and fragile. The real risk of deflation in the Euro area has pushed the European Central Bank to introduce negative interest rates. In many respects, the recovery appears stalled and, in any case, is not sufficient to bring down global unemployment from its level of 202 million, and start to fill the 62 million global "jobs gap".

The G7 Leaders' Declaration from the June Brussels Summit stated that "supporting growth and jobs remains our top priority". They promised to "present ambitious and comprehensive growth strategies at the G20 Summit in Brisbane". Yet, in reality, the combination of fiscal austerity and the wrong form of "structural reforms" in many countries continue to undermine workers' rights and sap the confidence of working families.

The briefing sets out the recommendations that the ITUC and TUAC, through the L20, are presenting to the G20 Sherpas and Finance Deputies in June. Governments are urged to move away from austerity to supporting global demand and structural policies that raise skills of workers and support workers' rights rather than undermining them. In particular, we are asking for:

The shift in policy that the global labour movement is calling for is to move from austerity to:

- Targeted investments in infrastructure to improve long-term productive potential and move to a low-carbon economy;
- Raising the purchasing power of low and middle-income households by reducinginequality and strengthening collective bargaining and minimum wages;
- Investing in active labour market policies to raise skill levels and reduce youth unemployment;
- Reducing informality and creating decent work in emerging and developing countries.

These objectives would reduce inequality and support inclusive economic growth that is sustainable at the same time. We will be working with economists close to the labour movement to quantify the impact of our proposals on growth and jobs. Thus, while campaigning around these objectives in the run-up to the G20 Summit in Brisbane in November, we will convey and repeat our message that "the world needs a pay rise".

John Evans

John Evans, ITUC Chief Economist.

Economic Briefing

"Lowflation", low investment and higher debts than ever

1 Recovery is far from sure

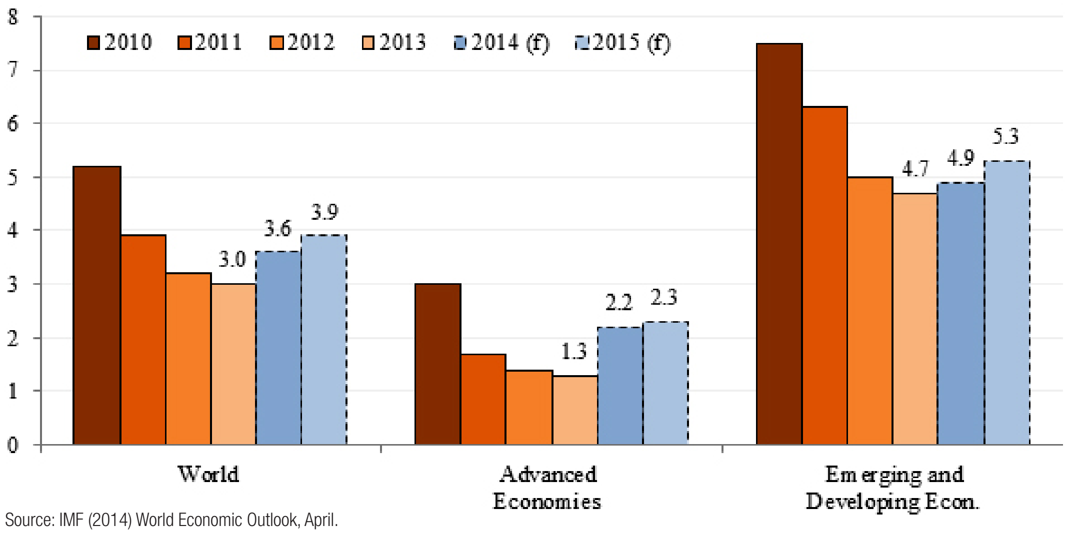
Table 1: Growth forecasts for 2014 in percent

Source	Month of publication	Global	Developing economies	Economies in transition	Developed markets	
UN DESA	Jan. 2014	3.0	5.1	3.3	1.9	
World Bank	Jan. 2014	3.2	5.3		2.2	
UNCTAD	Dec. 2013	3.0	5.1	3.3	1.9	
IMF	April 2014	3.6	4.9		2.2	
OECD	May 2014	3.4	BRIICS*: 5.3		OECD: 2.2	Euro Area: 1.2
EU Commission	May 2014	3.5	---		EU: 1.6	Euro Area: 1.2

*Brazil, Russia, India, Indonesia, China, South Africa.

Despite forecasts published in April and May by the OECD, the IMF and the European Commission that point toward stronger global growth of around 3.4% in 2014 (see Table 1) compared with 2013, the global recovery is far from sure. The growth of advanced economies has been considered the main driver of global growth in 2014. According to the IMF, growth in developed economies is expected to rise to 2.2% after a rather poor performance in 2013 of only 1.3% (see Figure 1). The European Union is also considered to have reached the trough but with still weak expansion of 1.6 % in 2014. In developing economies growth in 2014 will remain considerable below growth rates of 2010 of over 7% (see Figure 1). However poor growth performance in the United States in the first quarter of 2014 (in part due to severe weather) and undershooting of the European Central bank

Figure 1: Real growth in advanced economies is projected to increase



Source: IMF (2014) World Economic Outlook, April.

1 OECD (2014) "Merchandise trade declines across most major economies in first quarter of 2014", OECD International Trade Statistics, News release, Paris, 27 May, available at: http://www.oecd.org/std/its/OECD-Trade-Q12014.pdf.

inflation target for the Euro Area has called into question the strength of recovery in the industrialised economies. The OECD has most recently estimated that exports by the G7 and BRICs countries fell by 2.6 % in the first quarter of 2014.

Amongst the countries originally showing stronger growth, the UK, US, and Australia were originally forecast to achieve above average growth rates (see Table 2, right column). Australia was not affected by the crisis as other advanced economies due to lower interconnectedness of their financial market and exports, which are highly directed to Asia. The most recent "austerity" measures adopted by the Australian government may lead to these estimates being revised downwards. The growth model in the US and the UK is highly unstable as discussed further below. In the Euro Area growth patterns are mixed however the original forecast of 1.2% growth in 2014 has already been cut to 1 % by the European Central Bank.[2] While core countries might stabilize, the periphery will go through another year of low growth and the risk of deflation has become a reality – prompting the ECB to take the unprecedented measure of reducing its key interest rate to below zero on 5 June 2014.[3]

Table 2: Real growth in the G20 ordered by growth rates in 2013

	1996-2005	2010	2011	2012	2013	2014 (f)
China	9.2	10.4	9.3	7.7	7.7	7.5
Indonesia	2.6	6.2	6.5	6.3	5.8	5.4
India	9.2	10.3	6.6	4.7	4.4	5.4
Turkey	4.3	9.2	8.8	2.2	4.3	2.3
Argentina	2.3	9.2	8.9	1.9	4.3	0.5
Saudi Arabia	3.3	7.4	8.6	5.8	3.8	4.1
South Korea	4.8	6.3	3.7	2.0	2.8	3.7
Australia	3.7	2.2	2.6	3.6	2.4	2.6
Brazil	2.4	7.5	2.7	1.0	2.3	1.8
South Africa	3.3	3.1	3.6	2.5	1.9	2.3
Canada	3.4	5.2	2.9	2.2	1.8	2.0
United Kingdom	3.4	1.7	1.1	0.3	1.8	2.9
United States	3.9	1.5	1.8	2.4	1.6	2.8
Japan	1.0	4.7	-0.5	1.4	1.5	1.4
Russia	3.8	4.5	4.3	3.4	1.3	1.3
Mexico	3.4	5.1	4.0	3.9	1.1	3.0
Germany	1.2	3.9	3.4	0.9	0.5	1.7
France	2.2	1.7	2.0	0.0	0.3	1.0
European Union*	--	2.0	1.6	-0.4	0.1	1.6
Italy	1.4	1.7	0.4	-2.4	-1.9	0.6

* Data for the European Union are from the EU Commission, Economic and Financial Affairs (2014) European Economic Forecast, Spring 2014.

Source: IMF (2014) WEO, April.

Despite growth being projected to be positive in the European Union this year, all of the hardest hit countries remain below their growth level of 2008. Spain, Portugal and Greece have even diverged further in the last years (see Figure 2). Greece's output in 2013 stood at 76% of its level in 2008, Portugal's and Spain's at 93%. In 2013, those that were above the 2008-level included among others Sweden, the US, Norway, Germany, Japan and France. Iceland recovered considerably given its severe decline in output between 2008 and 2010. The EU 15 remains roughly 2 percentage points below the benchmark of 2008 and the UK has just recovered.

2 European Central Bank (2014) Eurosystem Staff Macroeconomic Projections for the Euro Area, June, available at: http://www.ecb.europa.eu/pub/pdf/other/eurosystemstaffprojections201406en.pdf?c84511f010115589d12013396829ff05.

3 ECB (2014) Introductory statement to the press conference (with Q&A), Mario Draghi, President of the ECB, Frankfurt am Main, 5 June 2014, available at: http://www.ecb.europa.eu/press/pressconf/2014/html/is140605.en.html

Figure 2: Growth level (2008=100)

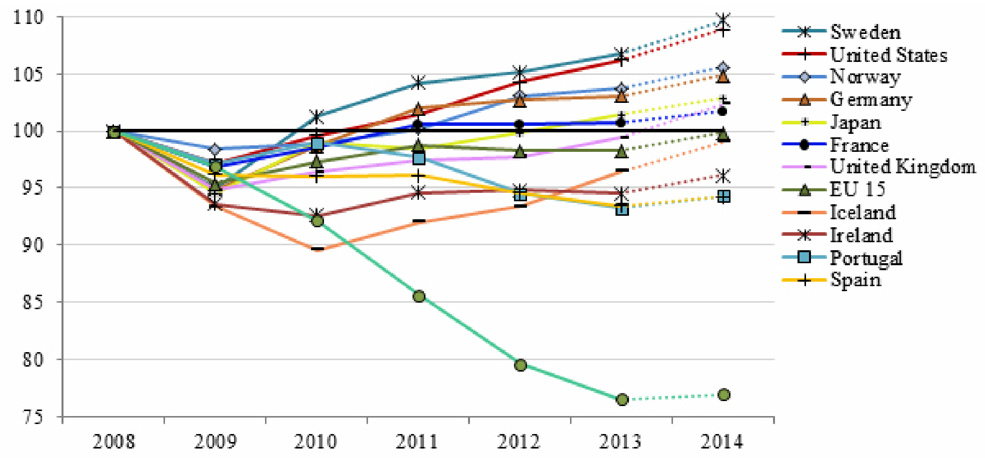
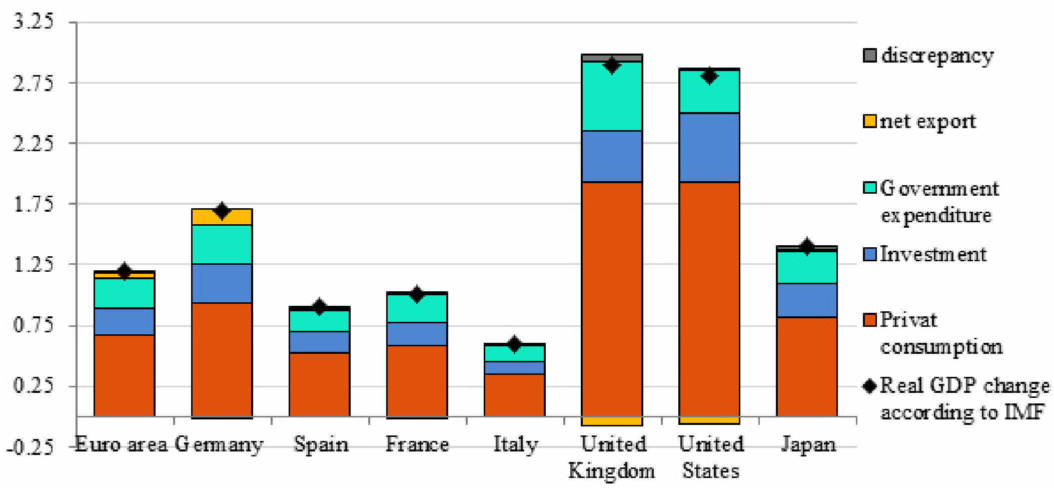


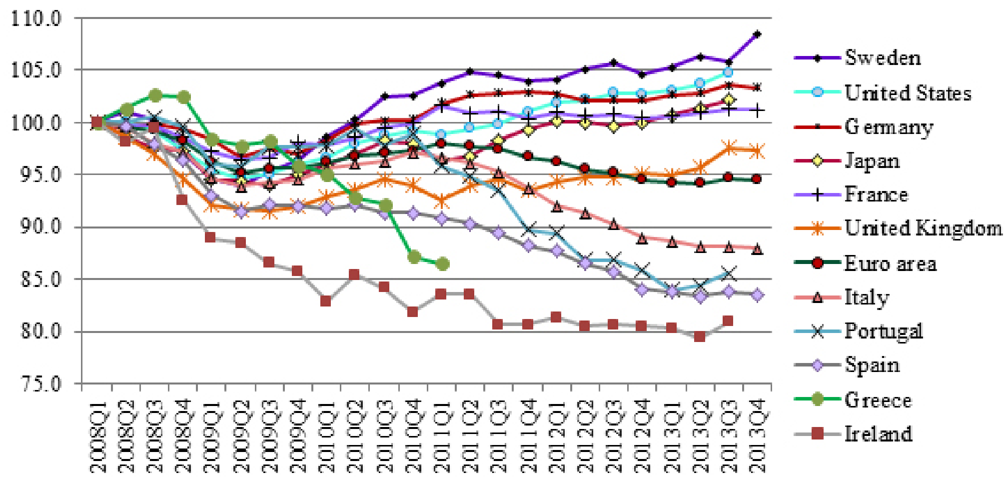
Figure 3: Growth in 2014 relies on domestic demand



Source: author's own depiction based on data from the European Commission (2014) Eurostat Database and the IMF (2014) World Economic Outlook, April; data for the US correspond to those published by the Bureau of Economic Analysis.

The forecasts of a return to growth reflect not the success of austerity policies as some have argued – but rather the easing of those austerity policies in several countries. As austerity policy has slowed, it will be private consumption that drives growth in the leading economies. In the UK, the US as well as in Germany consumption is expected to account for 66%, 69% and 55% of total growth. Even in the Euro area as a whole it will contribute with over 55% considerably to growth. Figure 4 shows the development of real domestic demand which has exceeded its value at the beginning of 2008 in Sweden, the US, Germany, Japan and France. Somewhat overstated is the development of domestic demand in Germany, which in fact has only been growing by 0.6 percentage points between the first quarter of 2012 and the first quarter of 2014. The growth in the US in recent quarters prior to the beginning of 2014 was noticeable reaching levels almost as high as Sweden. While the outcome might look similar on the surfice, the growth model could not be more different.

Figure 4: Real domestic demand (Q12008=100)

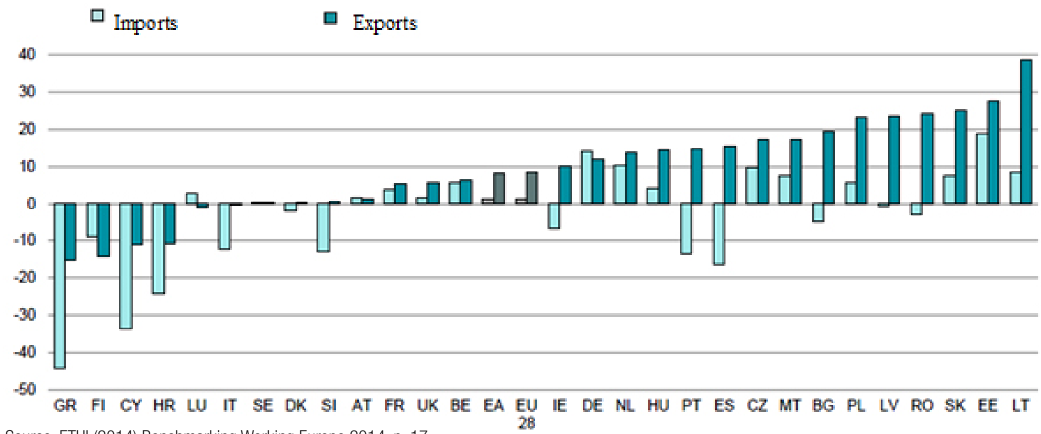


Source: European Commission (2014) Eurostat database, rebased from 2005 to Q1 2008.

Trade is expected to pick up in 2014 but remains considerably below pre-crisis average growth rates. Exports are growing by 4.2% compared to 2.3% in 2013. In emerging markets the surge will be much lower. Exports will grow by 5.0% in 2014 compared to 4.4% in 2013. Imports are also expected to pick up in advanced economies (from 1.4% in 2013 to 3.5% in 2014) while they remain rather stable in emerging economies (from 5.6% in 2013 to 5.2% in 2014).[4] As seen however the latest estimates of trade growth for G7 and BRICs countries by the OECD for the first quarter of 2014 show falling exports and imports and raise doubts over the forecasts.[5]

The core of European policy of previous years was to boost exports. Figure 5 below shows the change in imports and exports since the onset of the crisis. "Internal devaluation" has clearly led to a drop in imports. All crisis countries show a decline. The growth of exports, on the other side, differs widely. While exports in Greece, Cyprus and Hungary declined and remained stagnant in Italy, they surged in Spain, Portugal and Romania. However, this development depended rather on the production structure and on the external demand for those products.[6]

Figure 5: Percentage changes in exports and imports (2008-2013, 2005 prices)

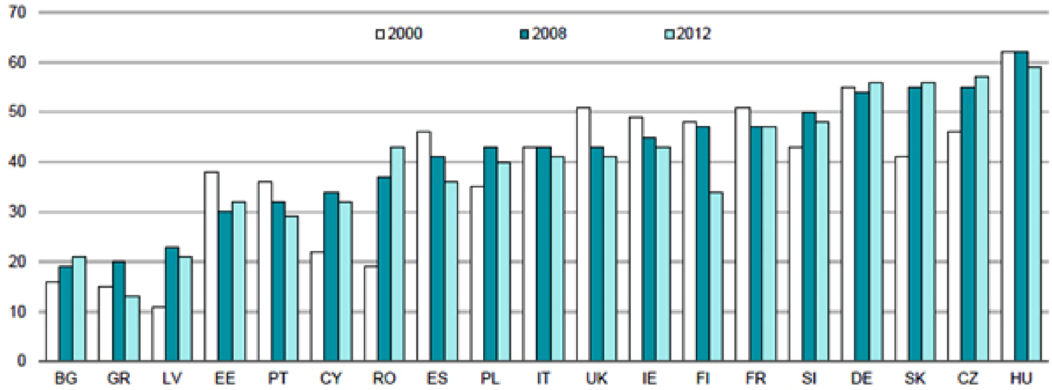


Source: ETUI (2014) Benchmarking Working Europe 2014, p. 17.

4 IMF (2014) WEO, p. 193.
5 Shawn Donnan (2014) "OECD warns on global trade slowdown", Financial Times, 27 May, available at: http://www.ft.com/intl/cms/s/0/0ec846d8-e5b7-11e3-aeef-00144feabdc0.html#axzz34DpCNnUu
6 ETUI (2014) Benchmarking Working Europe 2014, p. 17.

Figure 6 shows how the crisis policy has impacted on the export structure in selected European countries. The percentage share of complex products in Spain and Portugal has declined throughout the last decade. This trend was also shared by the UK and in recent years by Finland. In Greece, where the share of complex products increased in the lead-up to the crisis things reversed since then.

Figure 6: Percentage share of complex products in selected countries' 2000, 2008, 2012



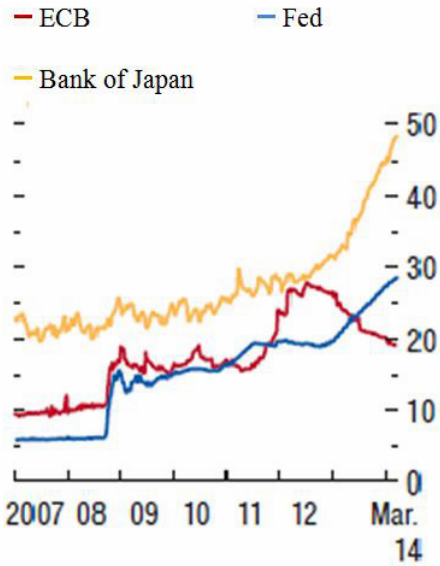
Source: ETUI (2014) Benchmarking Working Europe 2014, p. 18.

2 Monetary policy and its result

The stronger growth in the US and Japan was facilitated by expansionary and unconventional monetary policy. The Bank of Japan and the Federal Reserve have expanded their assets considerably which increased the total amount of money available in the economy. Total assets of the ECB at the contrary have been at the decline since 2013 (Figure 7a). The immediate result of this policy reflects Figure 7b. Inflation is too low. In the Euro Area it reached a mere 0.8% up until April 2014 (see Figure 7b) and is estimated to have slow to 0.5% until May 2014.[7] Core countries that would be able to lift inflation such as Germany remain also below the ECB target of 2%. On the other hand, Japan managed to come out of its decade long inflation and the US reached 2% in April 2014 (Figure 7b). The ECB's policy came considerably under pressure from the IMF, central banks and leading financial economist, who are urging for more "unconventional measures"[8]. As seen the unprecedented step by the ECB to cut its key interest rate to below zero on June 5 and the statement by the ECB President that it will envisage further measures should inflation undershooting continue points to the likely hood that the ECB will shortly also apply quantitative easing.[9]

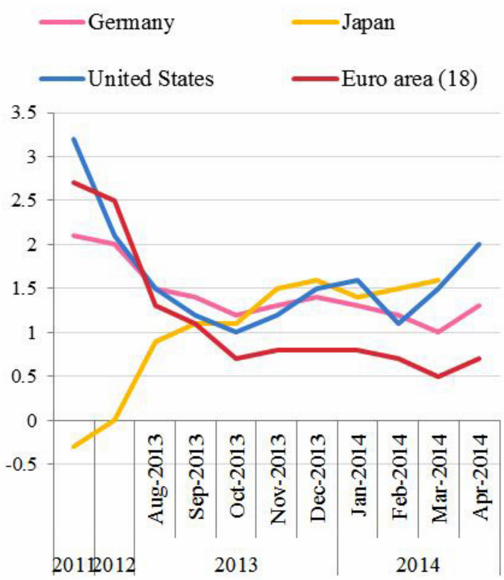
7 European Commission (2014) "Euro area annual inflation down to 0.5%", Flash estimate-May 2014, Eurostat newsrelease, 82/2014, 03 June, available at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-03062014-AP/EN/2-03062014-AP-EN.PDF.
8 Claire Jones (2014) "ECB under pressure as eurozone inflation slows to five-year low", Financial Times, 31 March, available at: http://www.ft.com/intl/cms/s/0/2c1d33dc-b8b3-11e3-835e-00144feabdc0.html#axzz34DpCNnUu.
9 Brian Blackstone (2014) "Europe Bank Officials Deploy to Explain Interest Move", The Wall Street Journal, 06 June, available at: http://online.wsj.com/articles/europe-bank-officials-deploy-to-explain-interest-move-1402111264.

Figure 7a: Central Bank Total Assets, (percent of 2008 GDP)



Source: IMF (2014) WEO, April, p. 4.

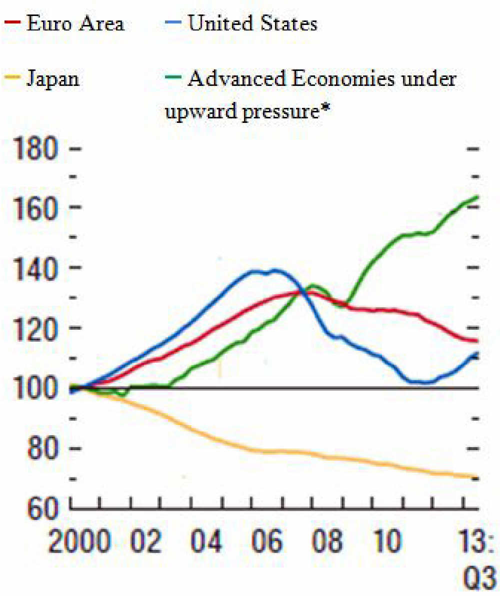
Figure 7b: Annual inflation, all items included



Source: OECD (2014) Database.

However, since major investment opportunities in the real economy are lacking, alternatives are considered by the private sector with interest rates at an all-time low. One result is a pick-up in the housing market in the US, core European countries, Canada, Hong Kong and other metropolises (see Figure 8).

Figure 8: Real House Price Indices (2000=100)

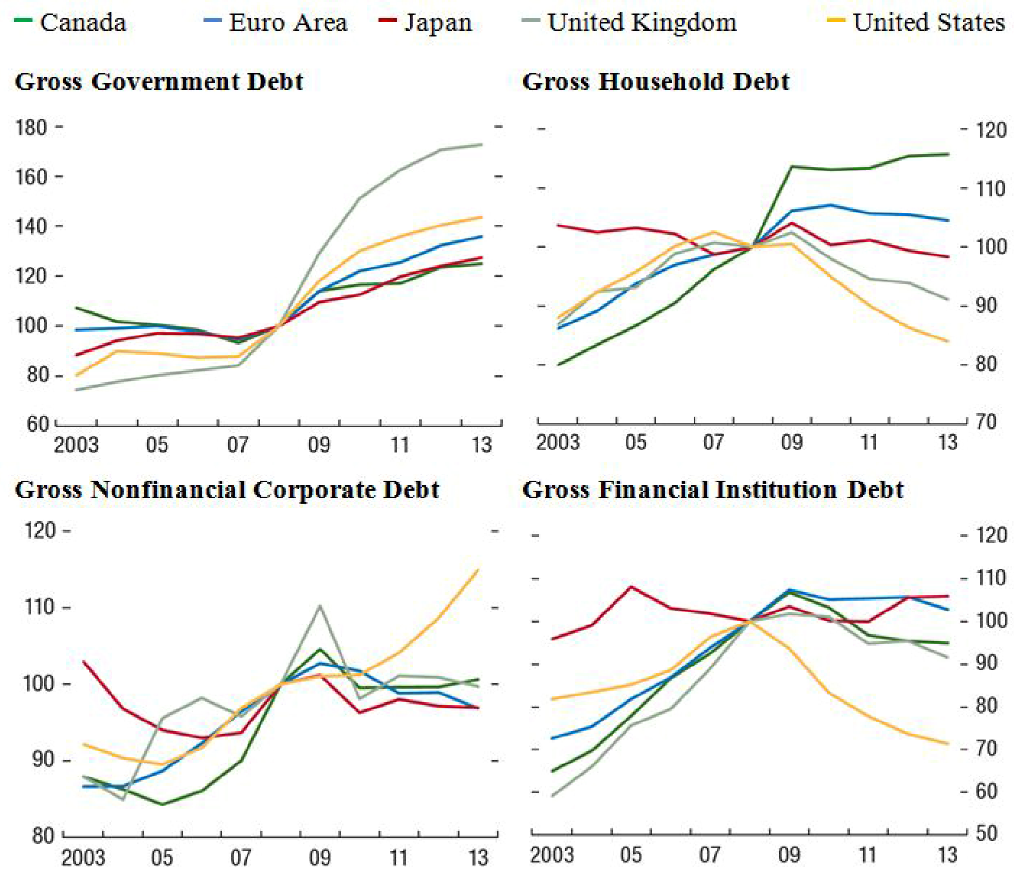


* These countries are Australia, Austria, Belgium, Canada, Hong Kong, Israel, Norway, Singapore, Sweden, Switzerland.

3 Debts remain high

The somewhat stronger growth in the US and the UK is of specific interest as it is often attributed to their more flexible markets. On the other hand, the lack of demand in southern Europe is explained by the deleveraging of households and companies and austerity. However, things are not as simple – in fact they are quite different. Figure 9 depicts the debt development in selected advanced economies disaggregated according to different sectors. Unsurprisingly public debts have increased and remain high. Most commented on is the surge in the UK, one of those governments most dedicated to austerity. However with average incomes flat and the property market rising by double digits in some countries the question remains as to the whether another bubble is appearing. Household debts have increased since 2008 in Canada and also in the Euro area while they declined considerably in the US and the UK mainly due to mortgage defaults. Corporations other than banks, on the other side, have further build up debt in the US and remained stagnant in the remaining economies since 2010. Banks have deleveraged in the US and also slightly in the UK but remain highly indebted in the Euro Area and Japan.

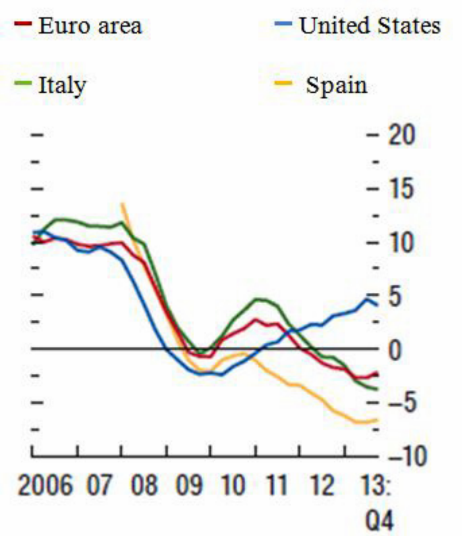
Figure 9: Trends in Indebtedness in Selected Advanced Economies since the crisis (2008=100)



Source: IMF (2014) Financial Stability Report, April, p. 5. Source: IMF (2014) WEO, April, p. 4.

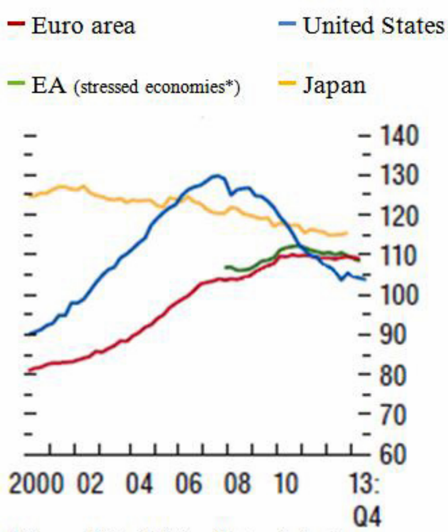
Figure 10a shows that compared to the US, credit growth in Europe is indeed negative. However, household debt-to-income levels (Figure 10b) have not come down since the crisis started. Only the US and to a lesser extent Japan have managed to reduce this ratio.

Figure 10a: Private credit growth (year-on-year percentage change)



Source: IMF (2014) WEO, April, p. 4.

Figure 10b: Household Debt-to-Income Ratio



*Greece, Ireland, Italy, Portugal, Spain.

Looking at the absolute level rather than growth reveals the still enormous amount of debt. Total gross debt levels of financial institutions in the UK for example stand at 242% of 2013 GDP and in Ireland at 699% (see Table 3). Irelands external liabilities aggregate to over 2,000% of GDP. In the UK they mount to the 6 fould of total output, mainly driven by financial debts.

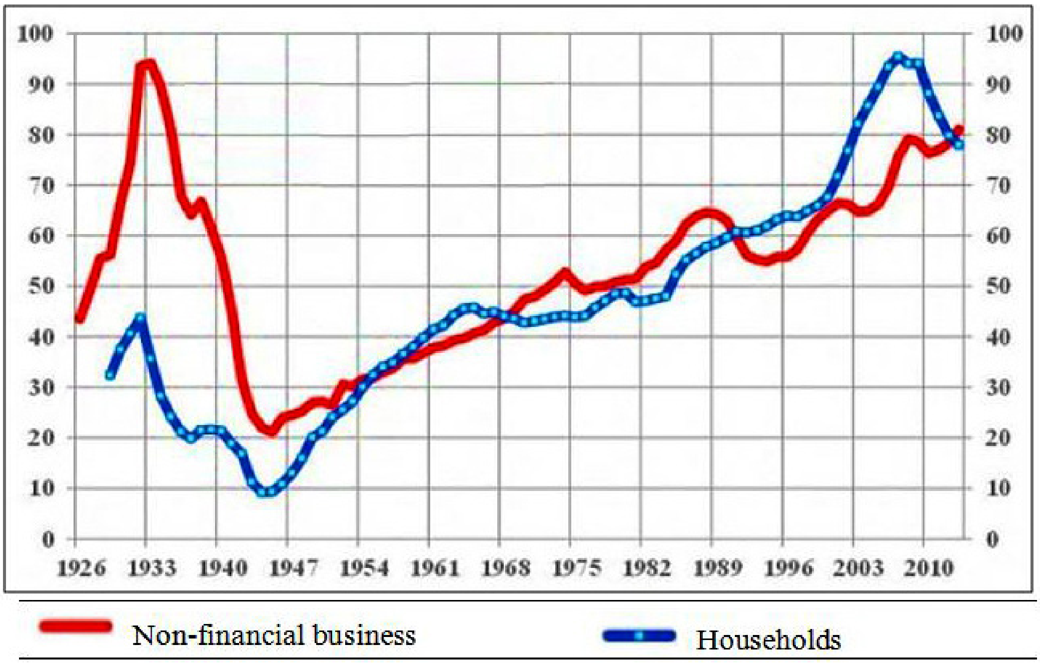
Table 3: Gross indebtedness and leverage in selected advanced economies (percentage of 2013 GDP)

	Government	Household liabilities	Non-financial corporates	Financial institutions	External liabilities
Canada	89	94	47	51	146
Japan	243	73	78	196	88
UK	90	95	73	242	597
US	105	81	54	83	158
Euro area	95	71	68	153	208
Belgium	100	58	…	101	439
France	94	68	68	165	322
Germany	78	58	43	95	209
Greece	174	71	66	24	240
Ireland	123	109	115	699	2,060
Italy	133	56	76	105	157
Portugal	129	98	118	45	294
Spain	94	84	99	109	233

Source: IMF (2014) Financial Stability Report, April, p. 4.

The IMF considers corporate debt in the US with 54% of GDP as sustainable. Whether these data are accurate is highly questionable. In the Financial Stability Report of April 2011 the IMF estimated them at 76% of 2010 GDP.[10] While the basis is different, GDP has not surged in such a considerable way while debt of the corporate sector has. Contrary to the data provided by the IMF on the indebtedness of American companies other sources consider their level much more unsustainable. In a blog of the Financial Times, Andrew Smith presents figures depicted in Figure 11 which include official data up until the end of 2013. It shows that households have deleveraged while companies' debts stand at its highest level since the Second World War with increasing tendency. According to the Financial Times loan request in form of collateralised loan obligations from the American corporate sector reached 42 billion USD until May 2014. If this trend continues, loans in 2014 could surpass the peak year of 2006 where 97 billion USD were sold.[11]

Figure 11: Non-financial and household debt as % of GDP in the US

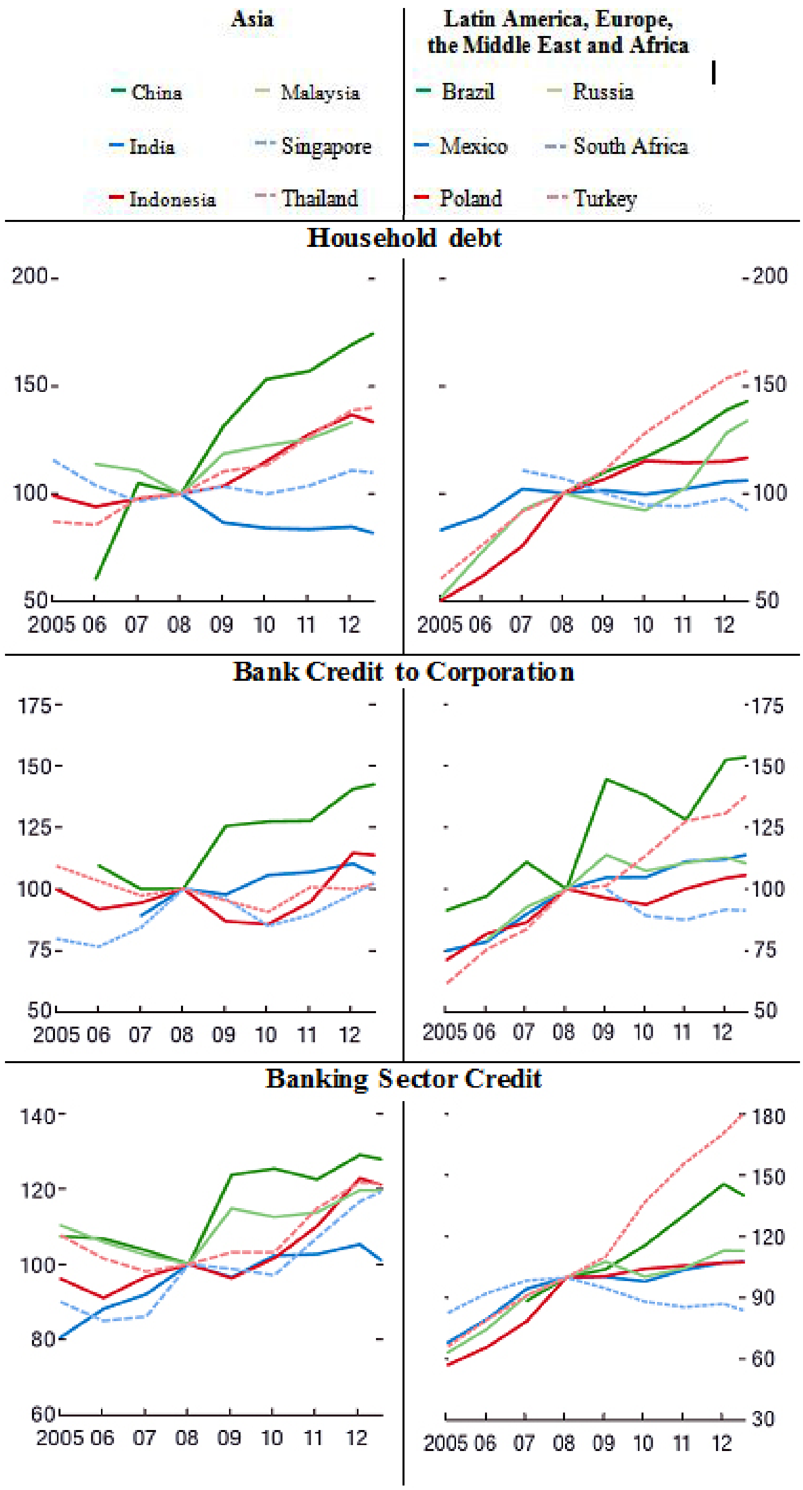


Source: Financial Times (2014) "A world awash with debt", by Andrew Smithers, March 11, 2014

Capital flow reached also emerging markets where debts have been on the rise as well since 2008. Specifically China, Brazil, and Turkey have built up debt in all different sectors. In Russia specifically household debts have increased in the most recent years (see Figure 12).

IMF (2011) Financial Stability Report, April, p. 11.
Tracy Alloway (2014) "Bundled debt demand reaching levels of height of crisis", Financial Times, 18 May.

Figure 12: Private Sector Gross Debt and Credit in Selected Emerging Market Economies (percentage of GDP, normalised at 2008=100)



Source: IMF (2014) Global Financial Stability Report, April, p. 26.

The exceptionally low cost of credit has further fuelled bond purchases and buy backs which are reflected in the price development of the equity market (see Figure 13a and b). Stock markets have surged. The S&P 500, which shows the trend of the 500 biggest, mainly American companies, has surpassed its level of 2007 (Figure 13a). The price-to-earnings-ratio (Figure 13b) is also on the rise. This ratio indicates whether the stock price of a company reflects an increase in earnings or rather surging stock market activities. An increase in this ratio indicates that share prices increase faster than earnings, which is the current situation. The abundance of money has reached also government bonds. The return of the Portuguese Government to the Financial Market at yields that were unexpectedly low and stand currently at 3.55% for 10-year-government-bonds has revealed once again that bond yield do not reflect the objective risk or sustainability of Governments but herd behaviour, speculation and the lack of investment opportunities.

Figure 13a: Equity Market (2007=100, national currency)

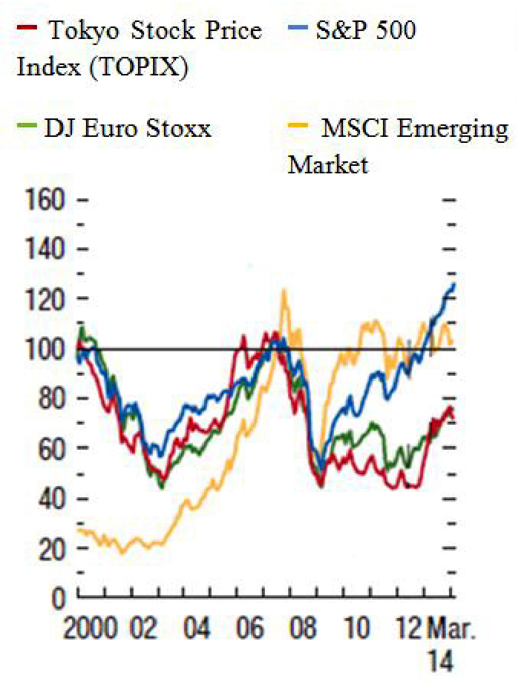
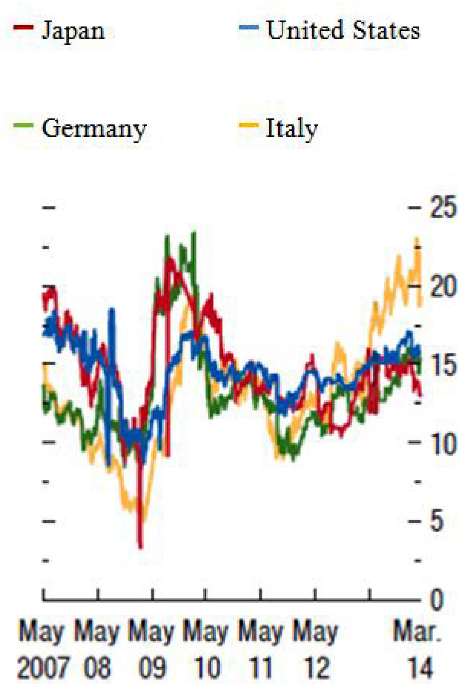


Figure 13b: Price-to-Earnings-ratio



Source: IMF (2014) WEO, April, p. 10.

4 Labour market developments

The labour market situation has relaxed in some of the strong economies but remains weak in the most affected countries. Specifically in Greece, Spain and Portugal the situation has further deteriorated since 2010 which is equally reflected in the percentage change in employment since 2010 (Table 4).

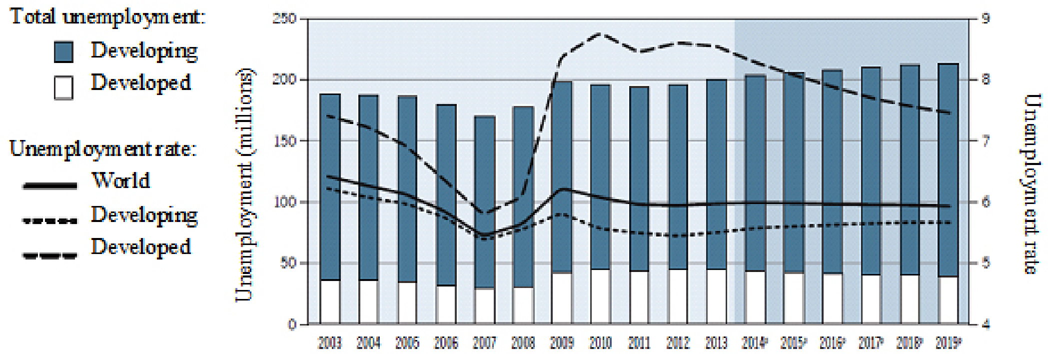
Table 4: Harmonised unemployment rate and change in employment in percentage

	Unemployment			Employment
	2010	Latest available data	Change in Percentage points	Percentage change of total employment (Q1 2010 and Q4 2013)
Australia	5.2	5.8	0.6	5.7
Canada	8	6.9	-1.1	5.6
France	9.3	10.4	1.1	0.6
Germany	7.1	5.1	-2	4.6
Greece	12.6	26.7	14.1	-19.5
Italy	8.4	12.7	4.3	-2.5
Japan	5.1	3.6	-1.5	0.5
Korea	3.7	3.5	-0.2	8.4
Mexico	5.4	5.1	-0.3	--
Portugal	11	15.2	4.2	-9.6
Spain	19.9	25.3	5.4	-9.4
Sweden	8.6	8.1	-0.5	--
Turkey	10.7	8.2	-2.5	--
UK	7.8	6.8	-1	4.7
US	9.6	6.7	-2.9	5.3
EU (28)	9.6	10.5	0.9	--
Russia	7.3	5.5	-1.8	3.3
South Africa	24.9	24.7	-0.2	--
Brazil	6.7	5.4	-1.3	--
Saudi Arabia	5.5	5.5	0.0	--
Argentina	7.7	7.1	-0.6	--
India	3.4	3.4	0.0	--
Indonesia	7.1	6.2	-0.9	--
China	4.1	4.1	0.0	--

Source: OECD (2014) Database and ILO (2014) ILOstat, IMF (2014) WEO and World Bank (2014) WDI.

The ILO project that unemployment will come down slowly in developed economies and remain rather stagnant in developing countries due to demographic developments. In their latest World of Work Report which was dedicated to developing economies they found that quality employment has been supportive of development.

Figure 14: Unemployment trends and projections, developed and developing economies, 2003-2019



Source: ILO (2014) World of Work Report, May, p. 3.

5 Concluding remarks

The policy direction of non-investment, austerity, export-led growth and structural reforms has failed. Globally output may have bottomed out but even this is not certain with the risk of deflation looming in the Euro area and in any case remains too weak to put major economies on the path to job-creating growth. Financial markets have not yet returned to a sustainable situation and low inflation is a further drag on indebted households and governments. Labour markets in the most affected countries have not improved in the last three years despite painful structural reforms that were supposed to kick start job growth according to their proponents. It is time to acknowledge the failure of current policies and return to a more balanced, ambitious and pragmatic set of measures based upon raising low incomes and investment in jobs and infrastructure to kick start the global economy. This is the approach that the global trade union movement is proposing to the G20 as indicated in the following recommendations.

L20 Recommendations to the G20

June 2014

Call for a G20 Action Plan for Comprehensive Growth and Quality Jobs

The G20 Finance Ministers and Central Bank Governors committed to raise G20 GDP "by more than 2 per cent above the trajectory implied by current polices over the coming 5 years" at their meeting in Sydney in February 2014. Investment and output growth in the G20 countries have remained far below longer-term trends and pre-crisis levels. Recovery continues to be weak, fragile and partial. The most recent growth forecasts have continued to be revised downwards for 2014, whilst slowing growth in emerging economies and the increasing threat of deflation in the Eurozone represent major risks to both jobs and growth in view of living standards. The G20 Labour and Finance Ministers should follow up on their call in 2013 to implement *"labour market and social investment policies that support aggregate demand and reduce inequality, such as broad-based increases in productivity, targeted social protection, appropriately set minimum wages with respect to national wage-setting systems, national collective bargaining arrangements, and other policies to reinforce the links between productivity, wages, and employment"*.

To move the G20 on course to achieving the 2% GDP growth target, governments need to shift policy and support global aggregate demand by reviving the G20 Framework for "*Strong, Sustainable and Balanced Growth*". This must be backed up by job creation targets in national employment plans and followed-up in consultation with the Social Partners. The L20 is calling on G20 governments to agree on a Jobs and Growth Pact to:

- Bring forward investments in public infrastructure that create jobs in the short term but also improve long-term productive potential and support the transition to a low-carbon economy that can generate green and decent jobs:
    - ✓ National growth and jobs plans should include infrastructure investment targets for the coming five years and help mobilise institutional investors – including workers' pension funds – by implementing the G20/OECD High Level Principles on Long-term Investment by Institutional Investors;
- Raise low and middle incomes to both reduce inequality, but also to inject purchasing power into the economy and trigger productive investment. The L20 will submit a quantified assessment of the job-creation impact of such a wage-led stimulus to the G20 Labour Ministers Meeting in September 2014;
- Strengthen workers' rights and social protection systems so as to formalize informal jobs and prevent formal employment to slide into informality. Reduce employment precarity and promote inclusive labour markets by boosting activity rates of vulnerable groups, notably women and minority ethnic communities, including through investment in childcare facilities and the "care economy";
- Introduce global social protection floors to ensure the provision of universal health and elder care and ensure basic public services;

- Support youth employment, by introducing youth guarantees, promoting quality vocational training and apprenticeships, as called for by the L20 and B20 and increase investment in quality public education;

Take Action on Climate Change and Green Growth

Commit to an ambitious and fair share in reducing emissions to ensure the success of multilateral climate negotiations in Paris in 2015:

- Contribute substantial resources to the Green Climate Fund, including public sources such as the FTT or carbon tax revenues, and support the development of green bonds as a means to provide long-term options for responsible investors;
- Set attainable targets in view of food and energy security and show strong support for sustainable economic activities.

Step up the Momentum on Taxation and Financial Regulation

The G20 endorsement of the OECD Base Erosion and Profit Shifting (BEPS) Action Plan to curb tax avoidance by multinational enterprises (MNEs) and the commitment to automatic exchange of information between tax authorities to curb tax evasion both need to be lived up to. The L20 is calling on G20 governments to:

- Implement the OECD Standard for Automatic Exchange of Financial Account Information and promote ratification of the Multilateral Convention on Mutual Administrative Assistance;
- Adopt a robust framework for MNE transfer pricing documentation, including public country-by-country tax reporting and review the permanent establishment status to take account of the changing business model of fully digitalised businesses;
- Mobilise financial resources to help tax administrations in developing countries enforce agreements.

Progress on G20-agreed financial reforms is far too slow or insufficient. A prime concern is the low level of ambition in tackling "too-big-to-fail" (TBTF) banks and in helping financial markets and investors shift away from short-termist and speculative behaviour towards patient, productive and engaged capital investment strategies. The L20 is calling on G20 governments to:

- Instruct the Financial Stability Board to work on proposals for structural separation of TBTF banks and the creation of simple leverage ratio of 5 percent on core bank deposits;
- Consider a financial transaction tax (FTT) on over-the-counter derivatives to dampen speculation and channel resources into economic and sustainable development;
- Address regulatory and market barriers to long term investment strategies, mainstream responsible business conduct by investors and ensure accountability and transparency of financial intermediaries, asset managers and bankers.

Trade, Sustainable Development & Safe Workplaces

The G20 and its members must ensure that multilateral and regional trade agreements (RTAs) and development cooperation are consistent with sustainable and inclusive development goals and decent work standards for all parties involved, and promote universal access to public services and medicines, financial stability and respect policy space. The L20 is therefore calling on G20 governments to:

- Refrain from granting customised access for investors to dispute settlement procedures that lack public accountability, sovereign legitimization and transparency;
- Guarantee workers' rights and well-being, quality jobs as well as workplace safety by committing to labour standards enforceability in RTAs and bilateral agreements, and establish procedures to enforce investors' responsibility in Global Value Chains (GVCs);
- Add a Declaration on Safe Workplaces to the Leaders' Declaration in Brisbane that includes a set of policy actions to protect lives and ensure social and economic upgrading in GVCs that is line with the decent work agenda of the ILO;
- Ensure that supply chains are purged of slavery or other forms of forced or precarious labour through legislative guarantees and monitoring procedures in trade and investment agreements;
- Ensure that G20 actions give developing countries policy space and review the G20's own role in the post-2015 and other international development cooperation processes.

Follow Up on Commitments and Increase Coordination

The G20 should:

- Move beyond "Action Plans" that only contain existing policies to coordinated actions and new, specific commitments and ensure their implementation by:
    - ✓ Re-launching and expanding the Mutual Assessment Process with employment and social protection as "risk factors";
    - ✓ Setting up data bases, progress reporting and forecasting tools to identify future needs.
- Ensure policy coherence by planning a Joint Labour and Finance Ministers Meeting for early 2015;
- Increase the cooperation between the Employment Task Force and the Finance Track to establish coordinated policy packages – with the help of international organisations and social partners;
- Organize social partners' consultations at both, the Ministerial and Leaders' meetings.

ITUC Economists:

John Evans, Chief Economist, and General Secretary of TUAC evans@tuac.org

Carolin Vollmann, Editor of the Economic Briefings, ITUC carolin.vollmann@ituc-csi.org

Peter Bakvis, Global Unions/ITUC pbakvis@globalunions-us.org

Pierre Habbard, TUAC habbard@tuac.org

Roland Schneider,TUAC schneider@tuac.org

ITUC CSI IGB

TUAC