INTERNATIONAL TRADE UNION CONFEDERATION (ITUC)

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G20 ministers and IMF should endorse financial transactions tax to meet looming public resources gap

Brussels, 23 April 2010 (ITUC OnLine): The ITUC has urged G20 finance ministers meeting in Washington on Friday 23 April to support the adoption of a Financial Transactions Tax (FTT) and the IMF, whose ministerial committee meets on Saturday, to design a strategy for the coordinated design and introduction of the FTT among as many countries as possible.

ITUC General Secretary General Guy Ryder responded to the IMF's interim report for the G20 on "A Fair and Substantial Contribution by the Financial Sector" in the following terms: "We note that although the IMF report devoted only 3 of its 57 pages to the FTT, it recognises that a sufficient basis exists for practical implementation of at least some form of FTT and that implementation challenges are no different from the IMF report's preferred options".

The IMF's proposal to G20 governments is to create a new two-tier tax system: (i) a Financial Stability Contribution (FSC) to fund the direct cost of future bank failures and (ii) a Financial Activities Tax (FAT) levied on "high levels of remuneration" and "excess" profits to cover for the "wider costs associated with financial crises". Both the FSC and the FAT would apply to all financial institutions, including banks and hedge funds.

Ryder noted that the introduction of an FTT is entirely compatible with the IMF proposal of a bank levy to reimburse the cost of bank bailouts, and that there is still considerable uncertainty over the IMF-preferred FAT option compared to the FTT. "The IMF interim report claims that the FAT would apply to 'excess' returns as would the FTT, and leaves options open as to its precise design and parameters. It is absolutely essential that low-salary bank employees and consumers of financial services, including households, must not be unfairly penalised by such a tax," said Ryder. "In contrast, we know with certainty that an FTT would discourage the short-term purely speculative trades that have contributed to commodity- and other asset-price bubbles while encouraging longer-term job-creating investments in the real economy."

The ITUC is concerned that the IMF report does not sufficiently address the overall fiscal impact of the financial and economic crisis, although the report does note that advocates of the FTT seemed to have been the only group among those the IMF consulted who raised this concern. "The failure of the IMF to address the looming public resource gap in its financial taxation report is surprising in view of the fact that this very week the IMF launched two major publications, the Global Financial Stability Report and the World Economic Outlook, which call on most G20 countries to engage in 'fiscal consolidation' in order to reduce growing public debts," said Ryder.

The IMF interim report is now in the hands of G20 governments who will have to decide upon next steps, including the size and scope of the IMF proposed FSC and FAT. If they decide upon a minimalist reading of the FAT, it would produce only a small fraction of the revenue that an FTT would generate. Ryder stated: "The global trade union movement and many others support the FTT as a practical means for generating the substantial revenues needed to repair the costs of the crisis, including for financing job-creation efforts, and to meet the development goals and climate-finance commitments that industrialised countries have made. It would be unseemly for the IMF or G20 finance ministers to propose that working people and the poor should now pay for the costs of a crisis caused by greed and incompetence in private financial institutions, through cuts in public services or regressive tax increases."

"G20 governments need to show ambition. The systemic insurance system that is proposed by the IMF would require sophisticated 'resolution' mechanisms whereby public authorities could take control of failing financial institutions before they go bankrupt. Otherwise it would become another means by which taxpayers pay the bill for the next financial crisis. Such resolution mechanisms have yet to be created and are highly dependent on parallel work at the Financial Stability Board" said John Evans, General Secretary of the Trade Union Advisory Committee to the OECD.

In its statement to G20 finance ministers and the IMF and World Bank spring meetings http://www.ituc-csi.org/IMG/pdf/No_14_-_statement-imfwb-0410-2.pdf , the ITUC and its Global Unions partners furthermore urge that stimulus programmes which the IMF has supported not be ended prematurely, in light of the Fund's own forecast that unemployment in many countries will remain at its current high levels for at least two years. The statement also asks the World Bank to take further measures to ensure full compliance with core labour standards in all of the projects that it finances, and for both institutions to work with the ILO in developing policy frameworks that put decent work creation at the very centre of country-level advice and financing priorities.

On 20 April, a delegation of G20 trade union leaders held a meeting in Washington with the heads of the IMF and World Bank, Dominique Strauss-Kahn and Robert Zoellick, in which they presented the proposals contained in Global Unions' statement to the IFIs' spring meetings.

The ITUC represents 176 million workers in 155 countries and territories and has 312 national affiliates.
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