



# Austerity Measures and Challenges on Economic Growth

## Knowledge Sharing Session - I



UNI FINANCE GROUP VISITED THE AREAS DEVASTATED BY THE MARCH 11  
TSUNAMI IN SENDAI JAPAN

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## Global Experiences

### *Austerity Measures and Challenges on Economic Growth*

A panel of Trade Union leaders representing finance industry employees from Brazil, Italy, Portugal, South Africa and United Kingdom, Discussed the shared experiences on the implications of austerity measures introduced by the respective governments following the GFC and the impact on economic growth.



#### **BRAZIL:**

- **Brazilian** economy stagnated in 2012 due to deepening of world crisis, decrease in investments, production crises (overvalued currency) and bad weather. It also increased the government interest expenditure and decreased export revenue and private sector investments.
- The Brazilian government introduced stimulus measures: reduced payroll tax, increased import taxes of several products, reduced interest rates and electricity costs to the manufacturing sector and households.
- Subsequently, the situation changed and the economy was expected to grow in 2013. Inflation tends to stay within the target range. Real interest rate is at a historically low level. Exchange rate is at an appropriate range to maintain export competitiveness and to manage imports of manufactured products.
- The government conducted a tripartite debate with the participation of civil society on: access to banking services and credit, customers' rights, interest rates, society control over the National Financial System etc.
- Working with the government, Brazilian trade unions support to carry out the national financial system. They followed a collective bargaining process and were able to increase salaries exceeding the inflation rate.



**Rita Berlofa**

“Unemployment rate is the lowest and compared to the unemployment rate 10 years ago. Although the economy stagnated in 2012 in Brazil the level of employment was kept high. I believe that the minimum wage policy is one of the most important policies introduced by the Brazilian government so far.

By taking this kind of policy, a stimulus has been provided to the entire economy and this has been effective in expanding the income of the people”

*Between 2012-2013, the official interest rate dropped from 9,75% to 7,25%.(SELIC)*

*The amount saved (US\$ 10 billions) is nearly enough to pay “BolsaFamília” in 2013 (the main government social program aimed to help poor families), estimated in US\$ 11 billions, nearly four times the necessary amount to fund “Agricultura Familiar” (government program aimed to support family owned agriculture business), estimated in US\$ 2,6 billions, and almost twice the amount aimed to fund college graduation investments in 2013, estimated in US\$ 6,4 billions.*

**PORTUGAL:**

- **Portugal** was adversely affected by GFC. Its GDP and investments decreased continuously over the last three years. Unemployment reached 1 million, and half of them do not receive any government support.



**Rui Ruso**

“In Portugal we have many difficulties with crisis since the beginning as I said and there is today not only in Portugal but all over Europe and all over the world too, a great attack against the unions and the unionist movement. Today in Portugal it's the grandfather that supports the son who is unemployed and pays for the

studies of the grandson because the father can't do it because he is unemployed. Austerity, remedy is worse than the illness”

*Because markets are global, banks are global, financial products are global, work is a global function, problems for workers are global.*

*So the solution we found in Portugal from many years ago is to be affiliated with UNI because if problems of workers are global, we must have a global union and UNI is the global union.*

**ITALY :**



**Mauro Bossala**

- Public Debt levels are high
- General Tax increases in all areas; hitting hard on workers and retired persons
- Nationwide unemployment rate is 12% but Youth unemployment is OVER 35%
- Following GFC the companies have postponed investment plans
- Banks are grappling with increased Non-performing loans and to meet additional Capital in line with BASLE III guidelines
- Mergers between medium size banks are common as a survival strategy
- Banks rely heavily on technology; opt for outsourcing, cut costs by cutting jobs
- Italian Trade Union initiated National Fund –help to reduce the social impacts of redundancies with prior retirement schemes
- Austerity plans set up at European level does not provide solutions instead increase unemployment and poverty all over Europe undermining the interest of social Europe.

**SOUTH AFRICA :**



**Ben Ventor**

- Due to the GFC, **South African** growth projection reduced weakening manufacturing production and retail sales. Despite the fact that major banks had been placed on a moratorium since 2007, the credit risk in the banking sector was increased.
- In order to overcome this situation, South Africa restructured the banking sector, reduced the work force and imposed a moratorium on recruitment while imposing restrictions on several trade union activities. The salary negotiations did not meet members’ expectations.
- “High court in South Africa ruled in 2012 that organizers of pickets and demonstrations, even during strike actions will be held liable for damages caused during a demonstration or picketing if they did not take reasonable steps to prevent any fore see able harm to others. This put a major impact on unions”
- South African banks plan to expand overseas and it is expected that this will increase the stress of bank employees. SASBO is expanding its organizing activities beyond South Africa to Botswana, Tanzania to strengthen the trade unions.
- Employees neglect trade unions; the financial crisis has provided an opportunity to realize the importance of trade unions. SASBO is employed organizers equipped with tablets/smart phones taking benefit of microchip and ICT revolutions to reach out to potential members.



**Joe Kokela**

“The corner-stone of any union for us to take our organizations forward we have to be inclusive. We really have to diversify. It cannot be one size fits all.”



- How do we expand whilst the Big Banks are getting smaller ?
- Can the Union be relevant to all members from cleaner to executive ?
- How do we build capacity in other African Unions?
- Last year’s success stories are forgotten already, the new generation wants to hear all and see all today.

## UNITED KINGDOM :

- **United Kingdom** recorded a significant number of job losses in financial services due to GFC. In order to reduce expenditure, banks reduced employees. Some major banks survived through selling shares to the government (to tax payers) and by consolidating with other banks.
- Banks introduced Payment Protection Insurance, PPI (credit insurance) system.
- PPI which is payment protection insurance and that's where if you were sold a loan, the bank staff also sold you an insurance product with no reference to whether you needed that insurance product and it would if you couldn't pay the premium, pay the repayments on the loan, the insurance would pay for your loan repayments. And many of our employees who were actually in banks and insurance companies were given extra benefit for selling these policies. But in many cases the insurance was sold to people who were self employed and when they lost the jobs PPI never came to their rescue as promised; employees performances were measured on the basis of selling these fake products to clients.
- Banks make large profits through cost cutting i.e. reducing employment (continuously restructuring work).
- Banks introduced a performance based salary system (a large part of the salary from commission or bonus) which was expected to create severe problems.
- Four big banks which dominate 75% of personal accounts create more risk on tax payers if in case of a failure.
- There is a great problem with gender inequality in UK banking. The vast majority of low paid staff and the lower grades in banks are women and of course it is men in the higher grades. UNITE now looking to engage the UK's equality and human rights commission to take up their powers to look again at the fact that women are paid so badly and to deal with all of those issues.



**Dominic Hook**

“HSBC of course a global bank in the 1st quarter made profits of over 8 billion dollars and the chief executive said well actually that's not good enough. They are planning to make over 1 billion dollars of savings this year. Where does the savings come from - well the savings comes from the staff, savings come from job cuts. And banks are still making job cuts.”

*UNITE the UNION in UK, policy, aims In a time of austerity, tax payers can't afford to bail out banks. So we must reduce the possibility of bank failure. We have to reduce the likelihood of government intervention and reduce the cost of government intervention. So what we firmly believe is that banks should be separated so that those things which must be saved, the daily banking, the ability for people to take money out of banks and to pay their bills, they must be saved and they have to be separated from the things that it doesn't matter if they are interrupted. Unite's policy is for the complete separation of retail and investment banking, and creation of a National Investment Bank for the UK to increase lending to Small and Medium Enterprises, that is SMEs and we want greater democratic control over the banks. – Dominic Hook*

## What do people think of “bankers”?

- According to YouGov, 73% of people describe the reputation of banking as bad - that is the highest figure of 26 industries tested. Utilities such as gas, electricity and water come second, some distance away on 62%.
- Just 4% reckon banks observe high ethical and moral standards—a joint-worst rating shared with casinos, betting shops and online gambling.
- Just 17% trust the people running British banks to tell the truth; with investment bankers the figure is even lower, at 13% they vie with MPs, estate agents and tabloid journalists for the public’s contempt.
- 73% think that “senior management at banks in the UK come across as arrogant”
- One silver lining though: when asked about “staff at my local bank”, 67% of us trust them to tell the truth, about the same as for judges.
- In a different poll just 2% of students said they would consider a career in financial services, and a quarter would be embarrassed to tell their parents if they got a job with a bank!



## Salz Review

- 34 recommendations include:
  - “setting high standards”
  - “learning from mistakes”
  - “Meeting customers’ needs and expectations”
  - “Bringing the values to life through learning programmes”
  - “Monitoring progress”
  - “Maintaining a global code of conduct.”
  - “Barclays should include among its non-executive directors a sufficient number with directly relevant banking expertise ... ”
  - “The board must be actively engaged in the process of improving its own effectiveness ... ”
  - “The group CEO should be responsible for building a cohesive senior executive team”
  - “Barclays should produce a clear policy statement as to how it fulfils its purpose with respect to its employees.”

