GEMEINSAM FÜR EIN
GUTES LEBEN

Active Response to Crisis – Together for a Better Life

Plan of Action of IG Metall

Causes of system infarction of the global economy

The global economy is suffering from system infarction. Unregulated financial markets have grown up in the past 20 years, alongside the banks and inside them. Risks have constantly grown and accumulated. The system totally lacks transparency. The result is complete loss of control and supervision of the financial markets.

Companies have fixed their attention on shareholder value and short-term profits, rather than long-term sustainable company development. They have neglected investments in future activities, to maximise short-term gains. They have tied their Management Boards and executives into this philosophy via bonus schemes and other remuneration systems.

This has led to profits rising sharply, while employee incomes have come under strong pressure. That in turn has steadily increased the demand gap between private consumption and public investment, causing long-term weakness of the domestic economy. The necessary balance between income from work and income from capital has suffered far-reaching disturbance in many of Europe's economies.

The global economy has likewise become unbalanced. The surplus-producing economies of Germany and China are now paying the price for their orientation towards export and competitiveness, while the debt economies of the US and the UK are on the edge of economic disaster. The global economy has become so unstable that worldwide economic production is in decline.

This system infarction shows unequivocally that it is not best for markets to regulate themselves, and they will not work properly without coordination by the state. It also refutes the ideology that the sum of individual egoistic activities leads to the general good and to more prosperity for all. And it shows that unrestrained competition does not lead to stable social development, and that it excludes large proportions of the population from the chance of a better life.

Crisis management not possible via markets

The crisis cannot be resolved from one day to the next – it is too deep and too complex for that. We are in a triple crisis today – a financial market crisis, an economic crisis, and a structural crisis, mutually reinforcing one another. There is also a deep crisis of confidence in the economic and political structures and in decision makers.

If resolution of the crisis is left to the markets, that will be sanctioned by massive losses of prosperity, mass unemployment and long-lasting depression. The crisis can only be resolved if the government takes decisive action and is willing to make fundamental structural changes. That applies to the nation states, to the European Union and to the G20.

IG Metall put forward proposals in December 2008 for action to combat the crisis in its position paper "No Lay-offs in 2009".

This contains proposals for active measures to combat the crisis. Some of the key points were taken up by the Federal Government in its Stimulus Package II:

- The environment premium, which gives key support to the automotive and equipment supply industry, thus helping to maintain thousands of jobs.
- Short-time working, which currently prevents job losses in many companies and administrations due to decline in the volume of work.
- Guarantee framework, which helps to secure corporate finances and thus also jobs.

Industrial value added is the basis of prosperity

The political and public debate is unanimous in the need to support and rescue banks, even by means of expropriation, but at the same time it questions support for companies in the real economy. Industrial value creation in Germany operates by means of a closely networked system. That means the loss of industrial core operations would lead to undesired but far-reaching domino effects because of the impact on suppliers and on industrial customers, due to the close technological relationships. The same also applies to industrial services, to traders and to many small industry sectors. A comprehensive response to the crisis must therefore include the real economy. It is essential to prevent the current crisis from damaging industrial substance in Germany. If companies collapse now, it will not be possible to rebuild them later even by huge funding support.

Mastering the crisis involves enormous cost. There is currently great danger that taxpayers' resources will practically be "expropriated" by the gigantic burdens imposed on them to survive the crisis. IG Metall demands a different policy, to protect the victims of the crisis and to place the burdens on those responsible for the crisis.

IG Metall therefore demands

1. Measures for active job protection, and a wider safety net for companies in the real economy;
2. More co-determination in companies and plants;
3. Political regulation of the finance and asset markets; and
4. Taxes on assets in order to pay for the burdens of the crisis.

We are summarising all that in a proposal for a social, democratic and environmental Contract for the Future.

<u>1. Active job protection – safety net for companies in the real economy</u>

IG Metall gives priority to job protection. All the tools of government must be used to keep as many jobs as possible safe through the crisis and prevent a downward spiral for the economy as a whole. That requires efforts by all the players in society. For example with short-time working and the guarantee framework for corporate financing – these are effective initial tools to safeguard jobs, and must be used pro-actively. In particular it is now important for the banks to support the companies actively with financing. It is vital to end the credit crunch as soon as possible.

Nevertheless, further tools will clearly be needed to safeguard jobs and support companies in this difficult economic situation.

IG Metall therefore calls for a nationwide **public equity fund to safeguard companies**, enabling the government can take on interest holdings in companies of the real economy. The collapse of the finance and asset markets mean that there is not enough private equity available to bridge the crisis situation. It is therefore essential to provide a sufficient amount of public equity. This fund must be endowed with at least **€100 billion**.

This fund is to be pre-financed by Federal Government and then to be fed by a compulsory **"Bond for the Future" imposed on high assets**. This proposal puts into specific form what IG Metall proposed in December 2008, i.e. a Bond for the Future based on all monetary and real estate assets of private households. Assuming a personal allowance of EUR 750,000 IG Metall expects net assets of at least EUR 2.5 billion to be liable to the Bond for the Future. It is to run for 15 years, carrying interest at the ECB interest rate.

Allocation of public equity is to be dependent on clearly defined conditions:

(1) Presentation of a viable corporate concept for the future
(2) Publication and transparency of the corporate structures
(3) Substantial contributions of owners/shareholders of the company
(4) Substantial loan volumes from banks (if necessary secured via guarantee programme of the Federal Government)
(5) No lay-offs for economic reasons – maintenance of jobs
(6) Company and management co-determination rights of employees (at least to the level of the Co-Determination Act of 1976, regardless of company size)
(7) Limitation of remuneration to Management Board and executives
(8) Membership of Employer Federations and compliance with collective bargaining agreements
(9) Safeguarding of in-company training and subsequent employment of the trainees.

For decision on public equity participation, it is also necessary to take account of overall economic and regional criteria and industry developments. The decision making bodies for public equity are to comprise delegations with equal representation of labour, industry and the public authorities. This equity participation fund is to be designed with partial regionalisation, in order to permit access to public equity capital for some key companies of the regional labour markets. A split between nationwide funds and regional funds can be set on the basis of the number of jobs and the equity amount applied for.

IG Metall believes that industrial value added is just as systemically essential for prosperity and political stability in Germany as banks are for the functioning of the finance and credit markets. IG Metall calls on the Federal Government to devise a **concept for maintenance of industrial value creation and jobs in Germany** and to secure the future of industrial sectors ("Better Not Cheaper"). The industrial sectors will be faced with enormous structural change in the coming years. Government cannot withdraw to a commentator role, but has to shape structural change socially and technologically, together with the trade unions. That must include a change of course in funding policy, towards industrial value adding clusters, with clear recognition of large-scale industrial projects, with a modern energy policy response, and with pro-active raw materials supply policy.

IG Metall demands that **insolvency law should be reformed to prioritise continuation of company operations**, in order to safeguard industrial substance. Insolvency law should make continued operation of a company easier for the next 24 months. Where necessary, insolvency administrators should have access to resources from the public equity fund for bridging purposes, to help achieve this aim. Large-scale creditors (such as banks) should be required to show more commitment for restructuring companies in difficulty. That would help to save jobs. Holders of preferential rights must be involved to the tune of at least 25% of the realisation income (currently the maximum is only 9% pursuant to Art. 171 of the Insolvency Ordinance). This procedure should in particular make it possible for companies where hedge funds and private equity funds hold shares to be channelled into proper restructuring processes.

IG Metall demands better **social regulation of the labour markets**. People in insecure employment must not be written off in this crisis. Large numbers of temporary workers and workers on time-limited contracts have already lost their jobs. They are currently bearing the main burden of the crisis. Temporary work has to be limited, and the "synchronisation ban" must be reintroduced, and departures from the Equal Pay principle limited to a short initial period. Sectors where minimum wages have been agreed in collective bargaining must be included in Employee Assignment Act. In sectors where there are no collective bargaining structures, a minimum wage must be set by law.

IG Metall demands an expansion of the **instruments of active labour market policy**. That means it is necessary to promote early retirement schemes to make it easier for companies to take on trainees and to recruit graduates, particularly form the engineering disciplines, in the present crisis situation. IG Metall also calls for review of pension regulations to make it easier for older employees approaching retirement to end their working careers in a flexible and socially acceptable manner, and for review of the plans for extension of total lifetime working.

IG Metall also demands a substantial increase in possibilities for **transfer short-time wages for temporary workers and employees on time-limited contracts**. The limit for payment of transfer short-time wages should be extended from the current period of 12 months to 24 months (Art. 216b para. 8 Social Code SGB III), where training activities are conducted on a compulsory basis. For the next 24 months, the provision of Art. 216b para. 7 SGB III should be suspended on a temporary basis and specifically for these groups of people (it currently provides that transfer short-time wages can be excluded in cases of return to a workplace in a facility of the same company or company group). This amendment would help those in precarious employment to get a chance for continuing education, thus improving their overall chances in the labour market.

IG Metall calls on the Federal Government to prepare a **Stimulus Package III** to enable rapid response to an expected worsening in the economic situation. Experience with the "environmental premium" (scrap an old car to get a bonus on new car purchase) shows that even small purchase incentives can have major impact and steer consumption. That is why IG Metall calls for an **extension of the environmental premium to the end of 2009** and allocation of the requisite funds for this purpose.

A broad based **future investment programme** coordinated at European level can help to modernise and expand the European networks in the next five years (data infrastructure, energy networks, railways, waterways, roads and aviation infrastructure), to change over energy supply to renewable resources and to modern low-CO_2 power stations (mainly combined heat & power) and to modernise the education and research infrastructure.

2. Democratising the economy

The previous priority to shareholder orientation of the company must be replaced by a model of social and sustainable company development. The present crisis shows clearly that the current capitalist development has to be converted to a democratically controlled development path. Companies have to submit to the primacy of democratically elected government and must no longer give priority to the interests of shareholders over the interests of employees and the general good.

IG Metall therefore calls for a **change in stock corporation law**, obliging Management Board and Supervisory Board not only to work "for the good of the company", but also for the good of the employees and the general public.

IG Metall calls for **expansion of company co-determination**. Co-determination should be applicable to all companies with 1000 or more employees, regardless of their specific company form. Three-way parity in co-determination should be introduced for all companies with 200 to 1000 employees, regardless of their company form. Co-determination legislation must also be applied to foreign companies if they are active in Germany and fulfil the other conditions for application of the Co-determination Act.

It should not be possible to appoint an *Arbeitsdirektor* (Board Member with responsibility for human resources and social affairs) against the votes of the employee representatives in the Supervisory Board. A binding list of "business subject to approval" should be included in joint stock company law. Important decisions, e.g. on closure of facilities, relocation of plants, and mass lay-offs, must in future be subject to a two-thirds majority in the Supervisory Board.

IG Metall calls for an **increase in co-determination rights**. Members of the Works Council should have their own independent right to prepare together with external consultants a recovery and restructuring concept, which can then be submitted to a conciliation board. Works Council members should have more co-determination rights in activities to safeguard jobs, in major changes in operations (re-organisation, production relocation, workforce reduction), giving them mandatory rights in order to achieve balancing of interests. Reasons for contesting workforce cutbacks must be expanded, for example in the case of dismissals despite the company being "in the black". The Works Council must be empowered to take measures to safeguard jobs, e.g. setting up employment & training companies, as part of a social plan.
Works Councils must have right of co-determination on the use of temporary employees.

IG Metall calls for **orientation of management remuneration to sustainable corporate goals**. That means a reduction in variable components in compensation, and cuts in management compensation where the company makes a loss. Members of the Management Board should be held liable for mismanagement. Tax deduction for company expenses should be limited. IG Metall members of Supervisory Boards will raise the issue of excessive Management Board compensation in the coming weeks, and press for correction.

3. Political regulation of asset and financial markets

In April 2008, and again in October 2008, IG Metall put forward concrete proposals for political regulation of the asset and finance markets. Many of these ideas have since then been adopted in party political positions. What matters now is for the Federal Government to implement these most urgent reforms at national level, and to work with commitment in Europe and in the G20 process for comprehensive reform of the global financial system.

IG Metall calls for **new operating rules for the financial markets, and for strengthening of financial market supervision**. One of the reasons for failure of the financial markets and the banks is that the players in these markets no longer undertook direct liability. That was made possible only by political decisions. Banks and other financial market players have since then entered into unacceptable risks. The following measures are necessary to avoid such speculation in the future:

- Credit risk must no longer be passed on 100% to third parties; in future banks have to accept liability for at least 30% of the risk themselves;
- Special purpose vehicles (SPVs) kept off-balance-sheet must be banned;
- All financial transactions must be subject to higher equity capital requirements. Banks must cover their loans to hedge funds and private equity funds with 40% equity capital;
- Rating agencies must in future be subject to government accreditation and public supervision. A European public rating agency must be established;
- Hedge funds must be supervised worldwide, and controlled by strict regulations in Europe (onshoring);
- Particularly high-risk, damaging transactions, such as short selling, must be banned;

- A financial market regulatory body and trading platforms must be established. Financial market products must be standardised, and subject to inspection and authorisation before they are put on the market;
- Closer institutional relations are needed between the Federal Financial Supervisory Authority (BaFin) and the German Federal Bank (Bundesbank). A European Financial Supervisory Authority is needed for the euro zone, in order to monitor the stability of the financial sector. A European system of financial supervision is needed with its own powers at European level, and with independence, reporting to the political organisations. A global financial supervisory body is needed, to be associated with the International Monetary Fund (IMF).

Investment before speculation

IG Metall calls for a European **financial transaction tax on securities and foreign exchange** purchases. The extent and speed of securities trading are no longer in any way determined by macro-economic necessity. In 2007 the volume of financial transactions was 74 times as high as nominal global GDP. A financial transaction tax would increase the cost of selling securities and thus make speculation and short-term orientation less attractive. This tax should be introduced on an EU-wide level, but could also be introduced on a national basis. The level of this tax should be set at 1%. It can be differentiated in such a way as not to hinder price and exchange rate hedging transactions of the real economy. The enormous volume of securities trading would give a very large tax base, and thus high tax revenues. Thus those who caused the crisis would also contribute to financing the costs of crisis.

IG Metall proposes that company taxation should be changed for the next three years in such a way that profits re-invested in the company are substantially privileged compared with distributed profits.

Drying out profit transfer and tax oases

Unregulated tax oases and offshore finance centres must be included in regulation in the framework of a new international initiative, or else internationally blacklisted and made ineffective. There are about 40 nations throughout the world which are regarded as tax oases, including some European countries. Substantial tax revenues are drained from Germany with their help. Countries which do not comply with all the recommendations and information obligations of the OECD and which are not cooperative in tax issues should in future be penalised. IG Metall welcomes the draft statute by the Federal Finance Ministry to combat tax evasion. It provides among other things for payments to such countries no longer to be recognised as operating expenditures, and for tax privileges for incomes from non-cooperating countries to be abolished. These proposals should be implemented as soon as possible and without any deletions. The EU Commission should reform the EU Interest and Royalties Directive so that all capital revenues within the EU are covered, including those of legal entities.

4. Drawing on assets to finance the burdens of crisis

Mastering the crisis requires enormous financial resources. There is a danger that those who are hardest hit, that is employees and their families, will have to pay the price of crisis. In the years before this economic crisis, profits and income from assets had exorbitant growth worldwide, and particularly in Germany. The imbalance between income from assets and income from employment increased more in Germany than in any other OECD country. The richest 10% of the population own more than 60% of total assets; the richest 5% own more than 46% of assets, and just 1% of the population owns more than 23% of total net assets. The net assets of private households are estimated at more than

6 trillion euros. Fair and equitable distribution of burdens requires drawing on these assets to finance the burdens of crisis.

In December 2008, IG Metall proposed a compulsory Bond for the Future to be imposed on assets of more than 750,000 euros. This Bond for the Future would be used to finance the public equity fund to safeguard companies. IG Metall believes it is necessary to:

- Introduce a burden sharing programme over the next 15 years, to finance the costs of coping with the crisis, drawing particularly on high assets;
- Higher taxation of top incomes by raising the top rate of tax, and reduction of the burden on medium and lower incomes by eliminating “cold tax progression” (i.e. higher levels of taxation becoming applicable due to inflation) and the excessive burden on medium incomes. In detail that means:
    - IG Metall calls for a linear-progressive characteristic of the income tax scale, from an entry-level of 14% up to the top rate of tax. That would eliminate the excessive burden on medium incomes (first progression zone) and significantly reduce the progression rate for employees.
    - Reducing the tax burden on lower and medium incomes is not just a matter of fairness, but also an important measure to boost the economy.
    - The top rate of tax and wealth tax have to be substantially increased to compensate. Those with higher incomes have to make their contribution to government finances.
- An increase in the regular level of social security payments (Hartz IV) to the level of EUR 440 as demanded by the welfare associations.

For a social, democratic and ecological Contract for the Future

IG Metall advocates a completely different path of development in these proposals, calling for a **social, democratic and ecological Contract for the Future**. IG Metall wants to replace shareholder orientation and market radicalism by an economy for people, where social progress and individual life opportunities are the essentials for policy making. It is no use just moving from one crisis to the next. A “business as usual” policy would be politically irresponsible and economically hazardous.

“Together for a Better Life” is the principle for a new Contract for the Future. It is aimed at employment, social security, ecological sustainability and democratic participation in the economy and society. A social, democratic and ecological growth increases freedom for people and distributes the costs of the necessary structural change more justly.

The public debate will in the next few weeks, and the general election, will decide whether the route to economic and social disaster is to be continued, or whether a new development path will be taken.
IG Metall will contribute actively to this debate with its campaign **“Together for a Better Life”**. That will mainly take the form of a company initiative, fighting to maintain jobs. A new Contract for the Future will not simply happen by itself. It has to be discussed, drafted, and agreed on by society. The struggle for “No lay-offs in the crisis” must be key component of a social, democratic, ecological Contract for the Future.