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Making its voice heard: a role for the labour movement in policies for recovery

by Andrew Watt

Let us be optimistic and assume for the sake of argument that the economic crisis is behind us and the world's economies will return slowly to 'trend' growth. What are the main challenges facing policymakers and, especially, the labour movement? There are the urgent issues of rethinking our financial system (key to averting a relapse into crisis down the line) and the medium-run need to manage the transition to an ecologically sustainable growth model. In the middle are a set of intertwined challenges on which I want to focus here: getting unemployment down; getting fiscal deficits down; and reducing inequalities. All these are vital if we are to move towards a sustainable economic and social growth model that serves the interests of the many, not the few.

The good news is that these aims are not mutually exclusive. On the contrary, there is a set of policies – a policy mix – that can achieve them all simultaneously. The bad news is that in many cases such policies do not seem to be high on the to-do lists of policymakers. Getting the balance between monetary, fiscal and wage policy right, over time and across countries, is not quite everything, but it is key to addressing the grave challenges that face us and avoiding a backlash in favour of reactionary policies.

What would that policy mix look like?

Key to getting both unemployment and fiscal deficits down is returning to faster economic growth. Merely getting back to 'trend' growth rates – in the advanced countries 2-3% a year – will not be enough. For the foreseeable future this requires the maintenance of aggressive stimulus measures in most countries (I'll come back to the 'most' caveat).

It is vital that the world's leading central banks uniformly commit to keeping interest rates at or near zero for the foreseeable future and fiscal expansion is initially maintained as far as possible.

But what about the risk of inflation and the problems of overburdened government budgets? Actually, both factors are arguments *for* sustained expansionary monetary policy. Government budgets are indeed in a parlous state in most countries, 'inviting' welfare state cutbacks. Low interest rates are absolutely vital to bringing them back close to balance. Lower policy rates help to keep the interest paid by governments down, thus limiting debt-servicing costs. They stimulate real economic growth and, not least, bring about a *desirable* rise in the rate of price increases. Why desirable? Because inflation is substantially below target, and faster inflation raises the *nominal* rate of economic growth, which is decisive for fiscal consolidation. (Ch. 2 of this[1] shows just how important this effect is.) Specifically in the euro area, a faster average rate of inflation would also dramatically ease the solution of the adjustment problems for those countries (like Greece and Spain) that have to reduce their relative wages and prices. And if you are worried about bubbles, regulate the markets – don't kill the economy with high interest rates.

Given an extended period of low interest rates, what should fiscal policymakers do?

Deficits will be reduced only when the economy picks up sufficiently for unemployment to fall. In the short-run this means most counties still need an expansionary fiscal policy. With monetary policy still up against a zero bound and with the banking system still sluggish, fiscal policy has a vital role to play in sustaining demand and also channelling spending towards socially desirable outcomes, such as lower inequality or the transition to a low-carbon economy. At the same time, credible consolidation plans should be *announced* now and foreseen with an appropriate 'trigger'. It makes no sense to use an arbitrary date ('the start of 2011') as a starting-point. Instead a sensible real-economic trigger (a certain output or employment target), tailored to national conditions, should be used.

A key challenge for the labour movement is to ensure that, in qualitative terms, these consolidation measures are favourable to working people. This implies a focus on strengthening revenue capacity, and deflecting the tax burden away from labour and on to capital, high incomes and material resources. Specifically, progressive political forces should unite behind calls for a financial transactions tax (at international or European level) and for the introduction of an EU carbon tax with a levy at the external border.

Should all countries run the same expansionary fiscal policies?

No. Those countries with relatively low deficits/debts and with current account surpluses should do more for longer to stimulate their economies. In the euro area this means Germany, Austria and the Netherlands. Faster demand growth in these countries would be good for employment and would dramatically ease the adjustment issues facing the euro area. Similar

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considerations apply at the global level to Japan and China; (in the latter case, best via a return to a policy of steady exchange-rate appreciation). Fiscally constrained countries must attempt as far as possible to sustain demand while coping with their adjustment problems; clamping down on tax avoidance would raise revenue without depressing demand so much. Demand and price deflation is almost always the most costly strategy. There's a better way.

And what about wage policy, unions' 'core business'?

It is both simple and hard at the same time. In 'equilibrium', real wages should rise at the same rate as labour productivity, nominal wages at that rate plus an allowance for 'desirable' inflation. In most advanced capitalist countries real wages did not keep pace with labour productivity during much of the neoliberal period: rising profits, siphoned off by the financial sector and CEOs and channelled into speculation, were a major cause of the crisis. In a nutshell, this happened because the institutional structures that underpinned the balanced growth, and especially the productivity-wage nexus, of the Fordist era were destroyed by neoliberalism. Modern equivalents need to be found. No general blueprint for this can be given, but progressive governments and union movements have to start designing and developing such mechanisms. Some useful points of departure include establishing or strengthening minimum wages and governmental support for collective bargaining institutions (e.g. extending the coverage of representative collective agreements or reducing free-riding by charging non-member firms and workers a bargaining levy). An important role can be played by measures to reduce price pass through by companies: there is a strong progressive case to be made for 'smart deregulation' of product and services markets to reduce firms' pricing power and thus raise real wages.

The right path for nominal wages is key. In the short run, the concern is to avoid deflationary wage developments (concession bargaining) which will hamper, not aid, recovery as generalised price deflation may take hold. In the medium run, as the recovery hopefully strengthens, nominal wage increases in line with the above rule will help underpin continued expansionary monetary policies.

Within a monetary union, the issues are rather different. As recent events have shown, persistent divergences from the nominal wage norm (in both directions) can build up in the member countries over a longer period. Then suddenly they require correction - one-sidedly by deficit countries - in the worst possible context, a deep economic and fiscal crisis (a crisis to which the imbalances were an important contributing factor). The key step here is for the surplus countries to engineer faster wage growth. Once again, the policy goals are not in conflict: a good way to achieve this in the short term is to run more expansionary fiscal policy. At the same time, deficit countries need to reduce their relative price levels. As I said there is a better way than fiscal contraction and a deep recession to induce deflation: some form of social pact to freeze wages and prices (ideally against the background of faster area-wide inflation).

What can labour hope for?

There is a path out of the crisis, one leading to stable and balanced economic growth and a steady return to lower unemployment, sound public finances and rising real wage incomes. There are no insuperable goal conflicts or fundamental problems in moving on to this trajectory, and labour's key interest must be to get onto it. However, for this to occur, the key areas of monetary, fiscal and wages policy need to be well coordinated with one another, both across time and space. The coordination mechanisms that do exist at the supranational (European, global) level are weak (the EU Macroeconomic Dialogue), flawed (the Stability and Growth Pact) and/or nascent (the G20). Meanwhile, the forces of globalisation undermine those coordination mechanisms that were, or still are, effective at the national level. Charting out the required policy mix is relatively easy and positive steps are possible even with the limited coordination structures currently in place. What will be harder is moving towards newer, more effective, coordination structures that permit economically efficient, socially just and ecologically sustainable outcomes over an extended time horizon.

Neoliberalism has been decisively weakened by the crisis, but its proponents are regrouping. There is still an opportunity for labour to make its voice heard in a progressive restructuring of global, European and national structures. It has a vital interest in doing so. It has good arguments. It must also shout, and the others must be persuaded - or forced - to listen.

[1] http://www.etui.org/research/Publications/Regular-publications/Benchmarking-Working-Europe/Benchmarking-Working-Europe-2010

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