GLU

Global Labour Column
http://column.global-labour-university.org/

Number 8, January 2010

CSID CORPORATE STRATEGY AND INDUSTRIAL DEVELOPMENT

Creating jobs now and changing the economic growth model for the future

by John Evans

I do not need to remind anyone reading this column that the financial crisis, which took a dramatic turn for the worse in September 2009, has plunged the world into a deep recession in which workers in industrialised and emerging countries are losing their jobs, their homes and their pensions. For those in developing countries, the consequences are even more acute. According to the ILO, globally, 60 million more workers will become unemployed this year, with an extra 240 million workers earning below one Euro a day.

The collapse of production in the last quarter of 2008 and the first half of 2009 was on a scale unseen since the 1930s. The talk of the "green shoots" of recovery is more a dream of financial markets than reality for the workers losing their jobs. There is a vicious circle where unemployment – which almost doubled in OECD countries in 2009 and will continue to rise to above 9 per cent in 2010 – also leads to collapsing house prices, driving asset prices down, pushing the financial sector into further crisis and leading to further bankruptcies and job losses in the real economy. We have not yet reached the bottom as far as unemployment is concerned, and the OECD World of Work report published in December 2009 warns, on the basis of current policies, that industrialised country unemployment will not return to pre-crisis levels before 2013.

Unless governments take the unemployment crisis more seriously, the 2010s will become a "lost decade". The global trade union movement is united in its determination to ensure that this does not happen.

In the short term, we have sought to protect our members, workers at large and their families from the worst effects of the crisis. In this, we have pushed for governments to take the lead and insisted that there can be no "exit" from stimulus measures until there is recovery in the labour market. The Global Unions' statements to the G20 Summits have set out the criteria that should be applied to stimulus, recovery plans and public investment, in particular:

- Action must be fast;
- Action must make a maximum impact in creating jobs;
- It must be socially just and protect the worst off;
- And action must be transformational in terms of helping to resolve climate change, raise productivity and skills for the future and get economies back onto a higher growth path.

The IMF, the OECD and the G20 Pittsburgh Summit came out against prematurely withdrawing economic stimulus – this much we welcomed. The US administration has just agreed to release TARP funds (Troubled Asset Relief Program) to create jobs and the Hatayama Administration in Japan has announced a recovery package. But much more is needed. Action has to be targeted at having the maximum impact on employment, rather than wasting money on tax cuts for the wealthy or on corporate tax cuts.

The Trade Union Advisory Committee (TUAC) to the OECD, the International and European Trade Union Confederations (ITUC and ETUC) have called for a real recovery plan that commits a further 1% of GDP in public investment in each of the next three years and is coordinated internationally. Our estimates indicate that this would slow and then stabilise the otherwise catastrophic rise in unemployment.

Far more of the stimulus programmes have to be devoted to keeping workers in economic activity until investment measures have their impact. On average, only 3-5% of the expenditure in stimulus plans has been devoted to active labour market measures – at the most the figure is 8%. We need schemes such as intelligent work sharing where workers are kept employed until demand picks up, if necessary, with short-time working compensated by state support for training and retraining. Measures also have to be targeted at young people, to avoid having a cohort, if not a generation, of our youth leaving education, moving into unemployment and being passed over by employers when the recovery comes. The International Labour Conference's Global Jobs Pact, which was agreed on a tripartite basis at the ILO last June and endorsed at Pittsburgh, must now lead to action by governments.

At the Pittsburgh Summit it was announced that a G20 labour ministers meeting would be held in Washington in April 2010 with the involvement of the ILO, business and labour. But there is a need to act before then. Trade unions are demanding that a permanent tripartite G20 Working Group be established to act on and monitor unemployment.

Corporate Strategy and Industrial Development (CSID)
University of the Witwatersrand

Nicolas Pons-Vignon
E-mail: glc.csid@wits.ac.za

We should all be concerned at what model of growth emerges from the crisis. Governments are already talking of the need for an "exit strategy" from the crisis that puts into reverse what they describe as the "exceptional" policies of the past year. The question that must be debated is "exit to what?". The crisis was not just another financial crisis that can be avoided in the future by tighter financial regulation alone. The "Shadow Gn" group chaired by Joe Stiglitz and Jean-Paul Fitoussi has noted that this crisis is unprecedented for at least four reasons:

First, it is truly global in nature – global markets have spread the crisis most to those dependent on exports.

Secondly, the crisis is profoundly unfair – those suffering most from its effects were least responsible for its creation. It comes on top of a general increase in inequality, a shift from wages to profits over the past 15 years across the globe and a transfer of market risk from employers and governments on to workers and their families as seen in the wave of privatisation of pensions, healthcare, and public services.

Thirdly, the causes of the crisis were structural – the imbalances in the model of global growth and inequality in incomes – as well as the consequences of insufficient financial regulation, if we can speak of "regulation" at all.

And fourthly, the crisis was produced by an ideology of market fundamentalism – a belief in the self-regulating properties of markets and denigration of the role of the state and public welfare systems.

It is imperative that the new policies are put in place to ensure that economies exit to a very different model of growth than that of the past 20 years. So far, there is little recognition of this in the international economic institutions, despite the fact that for the mainstream economics profession the crisis was the equivalent of the political scientists' "Berlin Wall moment" – i.e., nobody saw it coming.

The IMF and OECD economists prepared a paper for the G8 in June 2009 on the medium-term policies. This is not a call for a return to "business as usual" once the crisis is over – from a labour perspective it is much worse, as it involves:

- drastic cutbacks in public expenditure to curb the accumulation of public debt, in part debt accumulated in bailing out the bankers;
- cutting back pension entitlements, notably those of public sector workers, in view of demographic changes;
- more regressive tax systems, cutting on corporate income tax and top personal income tax, while increasing taxes that hit working families front on, such as VAT;
- wage flexibility, i.e. wage reductions and more labour deregulation in OECD countries to compete with a Chinese economy becoming more integrated into the global economy.

That is a profoundly unacceptable vision of the future. Rather, we have to use this crisis to move to a very different exit from the crisis, one that does not just get us out of the mess, but in which governments act together to create a new and different future:

- Where growth is more balanced between North and South;
- Where growth does not destroy the environment and is part of a carbon free future;
- Where global finance is downsized – including with an international tax on financial transactions – and the financial sector is restored to its legitimate role of financing real investment;
- Where the public sector plays a key role and we have fair tax systems;
- And above all where the fruits of growth are distributed fairly within and between countries.

That vision will require a very different model of global growth than one that the IMF is likely to propose. In TUAC we have established a task force jointly with the ITUC and the ETUC to bring together trade union thinking on this new model of growth over the coming months. We will want to work with the Global Union Research Network (GURN) as a forum for testing our ideas and bringing in new thinking. No one can doubt the difficulties of shifting the paradigm thinking of the past 20 years – but we have to succeed: we cannot allow the victims of this crisis to be the ones who pay for it. We must come out of the crisis with strengthened economies, strengthened societies and a strengthened labour movement.

John Evans is General Secretary of the Paris-based Trade Union Advisory Committee to the OECD (TUAC). Prior to joining TUAC, his previous appointments have included Research Officer at the European Trade Union Institute (ETUI) in Brussels, Industry Secretary at the International Federation of Commercial, Clerical and Technical Employees (FIET) in Geneva and Economist in the Economic Department of the Trades Union Congress (TUC) in London. He is currently a member of the Board of the Global Reporting Initiative, and member of the Helsinki Group.