The Great Recession: A turning point for labour?

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Markets left to their own devices do not lead to efficient resource allocation and stable equilibria. If there is a lesson to this crisis, it is that free market theonomics is no longer tenable. High volatilities, persistently high levels of unemployment, massive global imbalances, growing inequality and monopolization of productivity gains at the top of the income pyramid have been the most visible dysfunctionalities of finance-led globalization.

Three years into the Great Recession, we have by now grown accustomed to figures that defy the imagination. According to the IMF, financial institutions will write down US$3.4 trillion between 2007 and 2010 (Davis, 2009). By July 2009 governments had already provided a staggering US$10 trillion support (Schifferes, 2009) in the form of capital injections (US$1.1 trillion), purchase of assets (US$1.9 trillion), guarantees (US$4.6 trillion), and liquidity provisions (US$2.5 trillion) to avoid a run on the banking system.

Global stimulus packages were another US$2 trillion, or roughly 2 per cent of the global GDP in 2009, and 1.6 per cent in 2010 (IMF, 2009). The average fiscal deficit among G20 countries has moved from –1.1 per cent in 2007 to –6.6 per cent in 2010 (IMF, 2009). And yet, despite these extraordinary measures, unemployment skyrocketed, with 10 million jobs lost in high-income countries alone. Globally, the ILO estimates 34 million job losses and a massive reduction of working time. It will take at least 2.5 to 5.5 years to return to the employment levels of 2008 (ILO, 2009a). Toxic assets worth several hundred billion dollars (Palma, 2009) are still circulating in the virtual financial world or are hidden in bank balance sheets. Probably no one knows the scale of the risks that are still out there.

Maintaining the extraordinary levels of government support raises questions of financial sustainability, but winding down state support raises the even more threatening prospect of a double-dip recession. Given the scale of the crisis, the fact that any financial panic has been avoided must be accounted a success in itself. However, whether the massive state and central bank interventions have averted the crisis or just transformed it into a long period of economic stagnation, high unemployment and growing poverty remains an open question.

So far, the bankruptcy of the old economic regime has not resulted in any fundamental policy change. The current “auto-suggestive” recovery talk of officials and official experts creates a misleading atmosphere of confidence and complacency. Even in the third year of recession, nothing has been done to address the structural deficiencies of the system. As the root causes of the crisis are not being tackled, there is good reason to expect continuous instability, more bubbles, inefficient allocation of resources, disastrous financial implosions, and of course hardship.
Threat and opportunity for labour

A crisis constitutes a threat as well as an opportunity. A threat because hard-won achievements in wages and working conditions are easily eroded, and an opportunity because powerful vested interests and fundamental flaws in the economic system can often be overcome in the response to a systemic crisis.

No other crisis since 1929 has posed such a challenge to labour in industrialized countries, its traditional stronghold. Its deep and widespread character is reshaping the global economic order, with unpredictable consequences. The stakes are high. Will the crisis further deepen inequality within and among nations? Will employers’ hostility to workers’ rights increase? Will private capital succeed in socializing the costs of the crisis? Will massive deleveraging lead to deflation and stagnation, or will continued deficit spending lead to inflation? Are there lost decades ahead for the industrialized countries, just like the last 20 years in Japan? Will the welfare state as we know it survive the crisis? Will the United States maintain its global dominance? Can the euro survive? Will authoritarian state-led capitalism à la chinoise demonstrate a superior capacity to respond to the crisis than democratic capitalism? Is the multilateral system strong enough to provide the space for cooperative solutions or will we see a re-nationalization of international policies? Will the G20 replace the United Nations as the real forum for global governance? Or is a sustainable recovery on its way, with strong economic and productivity growth which will allow countries to grow out of their high debt levels and cause the job market to rebound soon?

A labour agenda cannot ignore this bigger picture. The immediate needs of workers push trade unions towards a defensive “bread and butter” agenda of protecting jobs, often through wage concessions. However, if universally applied, this will trigger a downward deflationary spiral, and with hindsight it may also be seen as having led labour down the path of being reasonable, but irrelevant.

The depth of this crisis makes it a virtual certainty that it will be a defining moment for labour, one way or another. The current regime favours global finance and big corporations. It rewards irresponsibility and high risk, distributes the gains of technical progress and economic growth extremely unevenly, erodes the bargaining power of labour and results in frequent financial crises with huge costs for societies. A continuation of this economic disorder will further weaken organized labour and reduce the ability of governments to pursue progressive social and economic policies. Years of sluggish growth and high unemployment (IMF, 2010) will most likely provide fertile ground for employers to erode social standards and increase non-standard forms of employment. In such an environment, further decline of trade union membership and influence is highly likely.

The crisis is worsening the economic bargaining position of labour, but it might also open up a political opportunity to reverse the trend of decline.
and mobilize for an alternative agenda of fair globalization and inclusive societies. Such an agenda implies limiting the economic power of the few in order to extend the freedom, democracy and opportunity of the many. The ability of societies to protect themselves against state or market dictatorship depends on the political institutions and public discourses in society. Trade unions are – next to religious organizations – the largest non-governmental organizations in most societies. Their role is vital in building more inclusive societies. To fulfill this role will require a combination of defensive strength, immediate crisis relief measures and a more fundamental agenda for change. This is highly ambitious, but it seems to be the most promising option to reverse decades of decline.

The experience of recent financial market crisis in the Republic of Korea, Sweden and Japan shows that labour was not able to exploit the failures of the economic system to its advantage. Indeed, in all cases it led to an erosion of labour rights, a relative decline in employment and wages and a massive rise in precarious employment (IMF, 2010).

Furthermore, all of the countries tried to surmount the crisis – some with more success than others – through export-led strategies based on currency devaluation and cost-cutting. These strategies were supported by the international financial institutions, favoured by employers, but costly for workers. These recovery plans were only possible to the extent they were adopted in a few countries and that their trade partners were willing to accept trade deficits.

But the financial crisis of 2007 is different. As in the Great Depression, this crisis affects a huge number of industrial countries simultaneously. Its global character therefore makes the standard export-led solution of devaluation and wage cuts both conflictual and unrealistic.

The crisis of 1929 quickly became a political crisis of legitimacy for capitalism. In this sense, no other economic crisis has changed the world as fundamentally as the Great Depression. Notably, it ushered in the proud labour movements of continental Europe (Sturmthal, 1944). However, the social democratic party of the day largely failed to find an answer to the crisis. Instead, the collapse of the liberal market economy paved the way to authoritarian regimes throughout Central and Eastern Europe. Fascism became the new social movement whose rise to power appeared unstoppable and culminated in the Second World War. On the other side of the Atlantic, the New Deal transformed the United States of America.

Today, many associate the Great Depression with Roosevelt’s New Deal, but it should not be forgotten that the crisis was first and foremost a terrible economic breakdown with incredible social hardship.

The important lesson of the Great Depression was the understanding that unregulated markets could lead to disastrous social and economic outcomes and that, in turn, state intervention in the economy was not only possible but necessary to reduce the fallouts from economic cycles. A broad
consensus emerged that the costs of leaving crisis resolution to the market was prohibitively high and an ultimate threat to the social fabric of societies. Only at the end of the last century, when the bitter experience of the Great Depression and its historical lessons disappeared from the collective memory, were free marketers able to dismantle the regulatory legacies of the 1930s and set the ground for the Great Recession of 2007.

Crisis, what crisis?

So far, the Great Recession has been a financial, social and economic crisis, but not a political one. Protest, anger and action are limited to television talk shows, a number of well-organized mass demonstrations, a few cases of symbolic bossnapping and a debate about banker bonuses which, first and foremost, shows the unbroken strength of the financial sector. By and large, the political fallout from the crisis has been limited. Broadly speaking, the overall legitimacy of the economic order is not being questioned.

In the first phase of “putting the fire out” – as in a war economy – costs did not matter: survival was the order of the day. Readers might remember Henry Paulson, the Treasury Secretary of the United States, sending a three-page document asking Congress for US$700 billion (Stanglin, 2008). Most welfare recipients have to do more paperwork than that to claim social assistance. Astronomical sums were mobilized while the decision about who would foot the bill was postponed.

After getting a bailout largely on their own terms, financial institutions have now turned their attention to shifting the burden of its cost as well as to resisting any major change to the neo-liberal globalization order. The immediate huge deficit spending prevented a great depression, but it also allowed the financial sector to regroup and engineer a formidable defence of the old regime. Despite bringing the global economy to the verge of collapse, the financial sector has so far been able to block any substantial regulatory change.

It is ironic that the same financial institutions that were begging governments to take on huge debts to save the banking system are now running speculative attacks against those same governments, because of unsustainable public debt levels. Governments are now paying the price for saving the banks, but not taking away “their financial weapons of mass destruction” (Buffet, 2002). The blood transfusion from the State to the banking sector has led to a quick recovery by the moribund patient who, once recovered, shows no signs of gratitude but turns his speculative energy against weakened governments.

Insufficiently regulated financial markets make capital flight and tax evasion easy and enable speculative attacks on currencies. Through these channels, they create a structural pressure to reduce public debt by cutting public expenditures on health, pensions, education, infrastructure and public
services instead of raising capital and wealth taxes as well as continuing to engage in productivity-enhancing public expenditures.

The list of countries that are going through this painful process is getting longer by the day: Iceland, Ireland, Latvia, Lithuania, Ukraine, Hungary and Greece are already being forced to make brutal cuts in wages and welfare provision while their economies are contracting. Portugal, the United Kingdom, Spain and Italy are probably the next in line.

In an Orwellian manner, every attempt by governments to liberate their societies from the straitjacket of blind market forces is called an attack on freedom, and a speculative attack on an entire country, such as Greece, is interpreted as fair discipline against an irresponsible government. The work of speculators is thus once again presented as impartial justice executed by an anonymous market.

Inequality and wage slide – or why regulatory changes here and there are not a sustainable response to the crisis

The global economic regime based on excessive profits and unsustainable private debt has collapsed. The fundamental reason is not some regulatory deficiencies here and there. Final aggregate demand cannot be indefinitely based on growing consumer debt. Rather, it needs to be based on the real income of the broad population, which was the case in the United States until the late 1970s.

An oversized financial industry has exploited the opportunities presented by global capital mobility, to the detriment of societies. In recent decades, wages and transfer incomes have not grown in line with productivity

Figure 1. Disjunction between income and consumption in the United States

Note: GY = gross income of the bottom 90 per cent. PC = personal consumption expenditure. 3-year moving averages. Percentages are average annual rates of growth in respective periods.

in most countries. In fact, institutional and legal capital and labour market changes, combined with aggressive, short-term profit maximization strategies have enabled the owners of private enterprises and financial capital to appropriate most of society’s productivity gains.

Moreover, threats of relocation or disinvestment have resulted in labour market deregulation and casualization of employment. Such global capital mobility led to the rise of tax havens, transfer pricing and tax competition, reducing the ability of governments to tax capital, thus driving down tax rates and regulation levels. Meanwhile, the high profit rate in the financial industry put pressure on the real economy to produce similar results for shareholders. Thus, the profits of the financial bubble economy became the benchmark for the real economy.

In sum, while income differentials have widened, the tax burden has shifted to employees and consumers, further reducing the purchasing power of the people. Throughout the world, “indecent”, precarious and informal employment is increasing. In many countries, open capital markets overly constrain governments’ ability to pursue an expansionary fiscal policy, as any increase in inflation would trigger capital outflows and ultimately risk a currency crisis. These capital market constraints, combined with the declining ability to tax, have reduced governments’ room for public expenditure, while low wages have limited private consumer demand. Nevertheless, overall demand has stayed high, as rapidly growing private deficit spending backed by asset bubbles has disguised the long-term unsustainability of growing imbalances in distribution and trade. It has created the illusion that consumption can rise despite a declining wage share, and that wage increases below productivity growth are “only” a problem of social justice, not an economic policy issue.

As long as asset prices are going up, a bubble looks like a free lunch from which everybody gains. However, the bubble, like any pyramid scheme, can only continue if more and more people join in. The bubble itself creates a
need to loosen credit criteria further: as the ratio between actual income and asset prices grows, credit conditions need to be softened to draw new entrants into the (real estate) market. Financial irresponsibility has to grow.

The financial industry massively increased its share of corporate profits. However, this increase in profits did not translate into real investment.

Indeed, a reverse process took place. The huge profits in the financial industry were crowding out private investment. A larger and larger proportion of capital is constantly circulating in the virtual world of financial “products”. Productive capitalism is increasingly being replaced by rentier capitalism.

When the bubble burst, it did not just affect the bubble economies; countries with an export surplus-led strategy, priding themselves on their solid financial policies, also saw their “beggar-thy-neighbour” policies collapse. They could no longer offset their lack of internal demand through ever-growing export surpluses. The export machines came to a standstill. The export champions realized that they had exchanged real goods against fancy

![Figure 3. Investment/operating surplus, selected countries, 1970–2002](source: Stockhammer (2005)).

![Figure 4. Net dividend and interest payments/gross operating surplus (GOS), United States, 1960–2007](source: Onaran, Stockhammer and Grafl (2010)).
but toxic pieces of paper. Productivity gains, instead of being shared fairly, had been wasted.

Wage, tax and social policies that share productivity gains fairly are crucial for a sustainable growth pattern based on final aggregate demand that does not rely on either beggar-thy-neighbour policies or ever-rising private or public debt.

**Labour facing a dual crisis**

Trade unions today are facing not only an economic crisis, but an organizational crisis of declining membership and influence.

During the post-war period of high growth and relative stability, productivity gains were widely shared in society, as a powerful trade union and labour movement improved working and living conditions through collective bargaining and redistributive social policies.

During that period, trade unions became institutionalized in society. Governments recognized organized labour as the legitimate voice of workers, and employers by and large had to accept unionized workplaces, as they could no longer rely on anti-union state policies to fight organized labour. Class compromises replaced class war. Institutional power reduced the need for mobilizing power. Trade unions became less of a social movement and more of a respected, influential and professional institution.

This “harmonious cold war” period, including as it did an influential role for organized labour as part of corporatist capitalism, became unstable in the early 1970s. Socially, the success of the welfare state reduced the need for direct solidarity and mutual support within the labour movement. Culturally, the student protests of the 1960s and growing individualism also challenged the authoritarian and patriarchal world of the traditional labour movement. Workers were less willing to play an active role in the movement and the organizations relied more on professional staff and institutional strength to serve their members. Both processes mutually reinforced each other.

But most significant was the end of Bretton Woods, which limited the scope for national macroeconomic policies. Labour could, to a lesser extent, supplement collective bargaining with redistributive, adequate social and economic policies at the national level. Business liberated itself increasingly from national regulations by going global. Capital achieved the comfortable position of being able to blackmail governments and workers into conceding ever more advantageous conditions. Tax reductions and wage cuts, instead of technical productivity increases, became a major competition factor. However, while the latter contribute to wealth creation, the former merely redistribute wealth from labour to capital.

Trade unions were not able to resist these changes, and their influence started to decline. The fall of the Berlin Wall sped up the process of
de-nationalizing the economies and opened up large, de facto union-free countries for capital investment.

The well-described processes of labour market deregulation, high unemployment globalization, outsourcing, precarious employment, small government, declining public services, and so on, undermined traditional workplace organizing and collective bargaining capacities. Manufacturing jobs were moved into union-free regions or countries. The post-war consensus of sharing productivity gains largely disappeared.

Changing the balance of power was not an inevitable by-product of a neutral globalization process, but rather a policy strategy that abolished the rules and regulations that had limited the freedom of capital and had provided protection for workers. Not surprisingly, these changes made it more difficult for trade unions to organize workers and to bargain collectively. Furthermore, the more collective bargaining moves to the enterprise level, the more the logic of competitiveness determines the bargaining outcomes, rather than the logic of solidarity.

Labour has been struggling to find answers to these changes. Under the conditions of global capital mobility, the effectiveness of national Keynesianism declined. Labour no longer focused on comprehensive alternative policies but on arguments for social policies within the neo-liberal paradigm.

However, alternatives within the logically closed system of neo-liberalism always suffer from the distinct disadvantage that they look somehow illogical. Interference in the market, apart from in a few exceptional cases, necessarily involves, in the neo-classical model, a trade-off between efficiency and desired political outcomes. And those desired outcomes inevitably end up looking unaffordable and irresponsible in the context of global competition.

The ascendancy of New Labour as a philosophy meant that large sections of the social democratic partners accepted the neo-liberal rules of the

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**Figure 5. United States: Average income of the bottom 90% and of the top 1%, 1933–2006**

- Top 1% (right scale): [8.1%]
- Top 0.5%: [5.1%]
- Top 0.1%: [6.5%]
- Top 0.01%: [8.1%]
- Bottom 90% (left scale): [1.7%]
- [3.7%]

Note: Percentages are average annual rates of growth between 1933–78 and 1978–2006. Includes capital gains. 3-year moving averages.

game. There were no longer alternative visions of societies and development. The end of history meant that in the mind of a vast majority – left and right – competitive capitalism was the only show in town. Ironically, the neo-liberal right and the anti-globalization left somehow seemed to agree that the structural forces of global capitalism had destroyed the policy space for social democratic policy.

Trade unions try to maintain the institutions for national and international social dialogue. But it takes two to tango. Even where social dialogue survives, the employers show little enthusiasm for any substantial regulations. Employers today are probably not more or less hostile towards trade unions than in the past. However, they have better legal and economic opportunities, a more favourable political and societal environment to circumvent trade unions through outsourcing, relocation, contract labour, precarious employment, etc.

In short, the crisis encountered a trade union movement that has been on the defensive for 30 years, a movement that has lost members and political influence in most countries, and whose traditional social democratic political allies have converted wholeheartedly, cautiously or with resignation to neo-liberal globalization.

It is this weakness of the left that explains to some extent the arrogance and confidence of those who have just ruined our economies. Feeling no threat, the casino is in full swing again. Thanks to government bailouts and cheap central bank money, stock markets have reached pre-crisis levels again despite the recession. These windfall profits are again translating into obscene bonuses for brokers, dealers and bankers.

Labour in crisis: Sharing the pain, shaping the future?

Given the scale of the crisis and the fear of a massive social and employment catastrophe, trade unions were invited to engage in crisis mitigation efforts. After the years during which trade unions were accused of being part of the problem, they have now become part of the solution. In many countries, trade unions of the particularly hard-hit traditional manufacturing industries are actively engaged in managing the fallout of the crisis. In Germany, for example, the system of industry-wide collective bargaining and highly institutionalized co-determination has displayed its full strength. Pragmatic and highly competent crisis management and adjustment policies and a smooth interaction between state labour market instruments and negotiated flexibility at the enterprise level have yielded impressive results. Despite a massive decline in production, there has been virtually no rise in open unemployment. The interplay of enterprises that wanted to keep their skilled workforce, trade unions that gave priority to maintaining high levels
of employment, and an extremely quick and flexible system of short-time working arrangements (Kurzarbeit) facilitated broader-based burden-sharing.

At the international level, trade unions successfully lobbied to meet with many heads of State before the G20 meeting. At the ILO, they managed to negotiate a global jobs pact that made far-reaching proposals for an income-led recovery strategy. However, the main focus of trade union activities was dealing with the employment and wage consequences of the crisis.

It is certainly a policy success that the short-term social costs of the crisis have been severe but not dramatic. Automatic stabilizers, stimulus packages, and negotiated flexible work arrangements have all contributed to mitigating the impact of the crisis.

However, the longer an employment crisis continues, the further the balance of power will shift in favour of capital. Production capacities are underutilized, unemployment goes up, pressure on wages grows, union membership and union collective bargaining power decline. Employers will use this to push their agenda of labour market deregulation further. Economic pressure at enterprise level and high levels of unemployment force and enable employers to demand and get major concessions from the workers. Even in cases where trade unions are able to mobilize and display defensive strength, the downsizing and restructuring of industries will result in substantive membership losses in their strongholds and reduce the organizational and financial abilities of the unions. This will further weaken their bargaining and institutional power.

The largely unchanged structural forces of the current globalization regime will continue to weaken labour. As long as the main features of the neo-liberal regime, such as global capital mobility, free trade, global tax competition, flexible labour markets, small government, precarious employment and decentralized wage fixing are in place, labour will inevitably be forced to agree to competitive solutions or, in plain language, to orderly cuts in employment, wages, social protection and public services.

Trade unionists at the enterprise level face the dilemma that what is macroeconomically desirable seems to be microeconomically impossible. Traditional industrial relations and collective bargaining can be helpful in sharing the pain among workers, but are insufficient to change the economic paradigm. A downward wage spiral would push economies into deflation; however, the logic of enterprise survival means that without regulations at the macro level, it will be impossible to maintain wage levels. Wage levels within the enterprise can be maintained only if aggregate levels of demand can be maintained. As private demand and private investment go down, a macroeconomic wage policy needs to be complemented with a state-led investment policy. Unless the crisis is “politicized”, a further and perhaps terminal decline awaits the labour movement.
Trade unions are facing a dilemma. Participating in the crisis management offers the opportunity to avoid the worst, and members expect their unions to protect them as much as possible in the current crisis. However, avoiding the worst will not create confidence in the organization and among the membership to mobilize for more far-reaching change. It will also mean that most of labour’s energy will go into defensive action. But although concession bargaining is structurally demoralizing, not engaging is not an option either.

At the policy level, trade unions are demanding “a place at the table” to influence the decision-making process. However, such a place comes at a price. An institution is only invited if it is regarded either as “reasonable” or as too powerful to be ignored. Given the current balance of forces in societies, “reasonable” unfortunately means mostly business as usual. It might be an “institutional” success to be invited, but it is not necessarily a “political” one. Indeed, those who sit at the table also share the responsibility for what is decided in the end and, incidentally, also for what is not decided.

If trade unions want to achieve more substantial change, they must not only ask for a place at the table, but also show that they are sufficiently powerful to present an agenda for change that cannot be easily ignored. Being part of the process and being the proponent of far-reaching change is impossible without mobilizing people. Otherwise, bold statements will look like empty threats.

If history is any guide, capital cannot be expected to subordinate its drive for profit to the needs of the national or international common good. Cooperative solutions have to be imposed on enterprises. The competitive logic of the market makes voluntary cooperation under crisis conditions highly unlikely.

Responding to this global crisis through competitive cost-cutting implies an extremely painful deflationary process. Such a deflationary race to the bottom will ultimately also solve the problem, after a huge amount of capital has been destroyed and millions of jobs have vanished. The winners will then rise, phoenix-like, from the ashes.

Labour and the progressive forces in societies face the fundamental challenge of either putting forward a comprehensive agenda for realistic change or accepting that the cost of this crisis will be rolled over onto ordinary citizens.

Trade unions have unique workplace knowledge, they are recognized as a centre of competence for social and labour policies, they are deeply anchored in the real economy. But the policy space in the area of their core competency is increasingly defined by what happens in other areas. It is the regulation of financial markets, the modernization of the tax system, the management of exchange rates, the control of banks that are key to reining in the power of footloose capital. Here, trade unions have little institutional
power and only limited expertise. They do not speak as an authoritative voice in this field and have a hard time mobilizing members around those issues.

This authority can only be achieved through a broad alliance of progressive forces in society. The main partner for a genuine reform agenda will not be the employers, but a broad coalition of the vast majority of the population who benefited little from the old regime and are now expected to cough up billions of dollars for more of the same. In recent decades, the tax burden of financing the welfare state has shifted disproportionately to the middle-income earners as the rich have become increasingly successful at avoiding taxation. The populist right is exploiting the understandable frustration over this and is mobilizing the middle class against the poor recipients of government transfers. Without effective progressive taxation of the top echelons of income and wealth, it will be impossible to recreate an overall spirit of solidarity and fair burden-sharing in societies.

A labour agenda for change

The economy is too important to be left to economists – particularly mainstream economists... The neo-liberal theonomics of the last decades has paved the way for an unfair and irresponsible economic system that serves the interests of the few at the expense of the vast majority of the world’s population. Inequality has reached unprecedented levels and is economically dysfunctional.

The lack of end demand cannot be forever sidestepped by means of either debt-financed consumption or export surpluses. Wages need to grow in line with the long-term productivity trend in societies. A sustainable market economy requires a State that supports a wage-led recovery strategy, provides social protection and comprehensive public services to its citizens, controls global capital markets, and is able to ensure a solid financial base for its activities through progressive taxation.

What is required to make our economies fairer and more inclusive? At the Global Jobs Summit, the ILO suggested a Global Jobs Pact and an income-led recovery strategy (ILO, 2009b). The Pact recognizes the fact that without fundamental change in the overall economic and financial systems social justice, decent work and living wages cannot be achieved.

Saving the financial system by bailing out irresponsible banks is insufficient to address the underlying imbalances and to increase aggregate demand. During the economic downturn, private investment will remain sluggish. Over-indebted consumers cannot continue to spend beyond their means. There is no alternative to continued substantial counter-cyclical monetary and fiscal state intervention.

But state intervention can only be successful in the long run if accompanied by policy measures to correct the dysfunctional wage developments of
the past decades, to build a genuinely fair and progressive tax base and change the dysfunctional global capital markets.

**A Decent Work response**

In a global economy, coordinated global responses are the optimal solution. This requires national and international rules for capital and labour markets. The Global Jobs Pact offers a policy framework to meet these needs.

**Investing in the future, creating employment and increasing the social wage**

Under the conditions of a slump, public investment has a higher employment intensity than tax cuts. The provision of universal quality public services and infrastructure is key to reducing inequality, building inclusive societies and increasing opportunities for the poor. Universal quality education, health services, affordable housing and other freely accessible public services reduce the need for individual savings and increase the proportion of people’s disposable income. Public investment in education and research is the best way to achieve high future levels of technical progress and productivity growth as the ultimate foundation of wealth creation. Investment in public transport, new energies, urban development, and quality housing is a huge social and environmental need that can create millions of high-quality jobs.

**Preventing wage deflation and promoting wage-led recovery**

Increased public investment must be complemented by institutional measures to avoid wage deflation, reduce wage inequality and see to it that productivity gains translate into higher wages, thus ensuring a sustainable consumption pattern. Combining centralized or coordinated collective bargaining with minimum wage legislation is the most suitable way of establishing a wage floor and compressing wage differentials. Increasing the wage share and strengthening the wages of low-income workers in particular will lead to an increase in overall consumption, as poor households spend a higher share of their income. Simultaneously, precarious employment relationships must be limited, as they have been used to circumvent labour rights and collective bargaining agreements. Labour clauses in public contracts must require contractors and subcontractors to pay the prevailing collective bargaining wage rate. Moreover, public sector employment must be increased and public sector wage levels must be maintained to serve as an additional wage anchor.
The State has to combat employers’ aggressive tactics aimed at preventing workers from joining a trade union. It needs to level the playing field through legal mechanisms that extend collective bargaining coverage and worker representation at the workplace. Any bailout or state subsidies must hinge on worker participation in the restructuring through collective bargaining processes and agreements.

**Maintaining and extending social protection**

Social security systems are the fastest and most efficient way to provide income replacement for workers in a crisis situation. Comprehensive social security systems act as automatic stabilizers and must be extended during an economic downturn, in order to stabilize income levels and overall consumer demand. They are also the most powerful instrument for reducing inequality and poverty.

In developing countries without comprehensive social security systems, a social floor that includes a basic pension, child benefits, access to health care and temporary employment guarantee schemes or cash transfers for the unemployed and underemployed is urgently needed to lift millions of people out of poverty. It contributes to increasing demand and is a necessary complement to any effective minimum wage legislation.

Finally, governments must protect retirement savings. Pay-as-you-go systems are clearly the best option at a time of capital market volatility. Any pension scheme – private or public – should be legally obliged to guarantee at least a minimum rate of return equivalent to government bonds.

**Making the necessary global structural changes**

The suggested measures will be difficult to implement and impossible to sustain without restructuring the global financial system that has propelled the failed economic regime.

**Regaining the ability to tax capital**

Tax havens must be shut down. To solve this issue, banks that work in tax havens, either directly or through subsidiaries, or that engage in other tax theft operations, should be barred from major US or EU financial centres. Multinationals should be required to report their global profits and pay a unitary tax. All the business that is done under one ownership should be treated as one unit, then the proportion of income earned in a specific country should be estimated and its national tax should be applied to that income. This would make transfer pricing and financial delocalization less attractive.
Wealth and inheritance taxes and marginal tax rates on high income must be increased to rebalance the tax burden in society and increase the purchasing power of ordinary citizens. Property taxes on high-value real estate would be a first step that could be introduced relatively easily even at the national level. In industrialized countries today, tax levels are between 30 and 50 per cent of GDP. High tax levels are compatible with highly productive economies. Compared to highly successful Scandinavian countries, most countries have substantial policy space to increase taxes. Taxing global wealth is not technically impossible. It is a question of political power and political will. Given that 40 per cent of global wealth is owned by 1 per cent of the population, a highly progressive wealth tax should be able to generate substantial revenues without increasing the tax burden on the vast majority of people. In most countries, the top 10 per cent of the population own more than 60 per cent of the total wealth. Real estate and land are a big part of this wealth and are comparatively easy to tax. Indeed, as Winston Churchill pointed out a hundred years ago, land owners normally gain huge windfall profits from public infrastructure development and should be taxed accordingly: “Roads are made, streets are made, services are improved ... To not one of those improvements does the land monopolist, as a land monopolist contribute, and yet by every one of them the value of his land is enhanced ... he contributes nothing to the process from which his own enrichment is derived” (Churchill, 1909).

### Downsizing speculative and high-risk activities of the financial industry

The financial sector has been very innovative and good at doing what is bad for development. Financialization of our economies has channelled resources into wasteful investment. Casino capitalism has diverted capital from real investment. The so-called product innovations of the financial industry have made traders and brokers rich but, unlike other kinds of product innovation, they have not increased the wealth of our societies. In other words, banking has to become boring again.

A financial transaction tax on stock market transactions would reduce unproductive financial market speculation based on minimal margins and high leverage. A high capital gains tax on short-term profits would reduce incentives for speculative trade in financial markets. Higher reserve requirements for banks and more conservative rules for mortgages reduce the probability of asset bubbles. Banks can only be allowed to operate as private enterprises if they bear the risks of their investment and never become too big to fail. A diverse banking system – incorporating state-guaranteed savings banks, clearly mandated public development banks and private banks – is needed to reduce the institutional lobby and blackmail power of the financial
industry. Rating agencies that are fully independent from the financial industry must be available to ensure better risk assessment. Investor protection against toxic products must be provided through compulsory state certification of all financial products. Risk-taking by pension funds needs to be limited by insisting on a guaranteed minimum rate of return.

Implementing a comprehensive agenda for change is a task that goes way beyond traditional industrial relations and collective bargaining. However, it will be impossible to defend, let alone advance, the living conditions of workers, if the rules of the game are not changed. Trade unions might win a number of battles through organizing and campaigning, but they will lose the war, if they do not become a key partner in a political alliance for change.

Cohorts of think tanks, journalists and experts have been incredibly successful at suggesting that there is no alternative to the full subordination of our lives under the law of the market. A democratic alternative has the opposite point of departure: there are always policy choices and there is no structural economic determinism that makes social justice and fairness impossible.

References


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