TUC Conference: Economics for workers not wealth

14:30 – 16:00 Panel 3: The international landscape for a workers' economy

Filip Stefanovic

- We heard about the concept of underconsumption, and the need to rebalance bargaining power between capital and labour, in order to raise workers' income, which will then boost domestic consumption, trigger investment and boost GDP. There are some important nuances and additional structural issues along the way, including the way industrial production evolved over the past fifty years, the fragmentation of global supply chains, the increasing role of the digital economy, IPRs, and more, but the idea that it is domestic wage-led consumption that drives aggregate demand in a most resilient way and that this is where you need to start from is fundamentally right and what we should be looking at.

- The problem is that – and here we shift to the international level – capital is free to move across borders whereas labour is not, something trade unions are very well aware of and have been pointing out for the longest time. Also, in order to make up for weak domestic demand, economies try simultaneously to compensate with sales abroad (so-called export-led growth models), without a proper mechanism in place to avoid persistent trade surpluses and deficits. This does not give the possibility to countries with current account deficits to close the gap with surplus countries, sparking a global race to the bottom in which basically everyone tries to build comparative advantage in terms of cheap labour cost, which translates in low income households incapable of consuming domestic production, hence dumping these products on other markets, pushing those other countries to compress their labour costs to face competition, but again with underconsumption at home they cannot sell everything domestically and so pass the ball further. So, we are ultimately stuck in this vicious circle of wage compression, underconsumption and chronicle trade imbalances / trade wars.

- What needs to be stressed is that there are no real winners from chronic trade account imbalances – including surplus countries! If we take the example of Germany, it has been running chronic trade surplus at above 5% of GDP ever since 2005. This is a combination of labour market reforms in the early 2000s, its fiscal frugality and the advantage of a common currency that does not reflect the real power of the German economy. This has forced other countries in the euro area, particularly in the European South, to pursue other strategies than monetary policy, which obviously was out of the picture, to regain competitiveness. But this is an impossible goal unless either EU monetary policy is matched with a proper fiscal policy at EU level, or Germany voluntarily decides to raise public expenditure and adjust wages to productivity to boost domestic consumption rather than selling its BMWs to Italians and Greeks.

- Italy, perhaps less widely known, has actually endured this exercise with great success. It has successfully run a trade surplus since 2011, about 2-3% of GDP. The catch is that in order to achieve this outcome, Italian real wages have not only stagnated over the past two decades, but they are today below where they stood in the year 2000. Yet, productivity is

stagnant, with GDP growth around 1% on average over the past twenty years. So again, we see a spiral of low wages, low prices, dampening excess production abroad rather than strengthening wages and labour institutions domestically.

- The United States have criticised Germany for years, for its excessive trade surplus matched with severe fiscal policy. One of the main reasons is that the US have a significant trade deficit vis-à-vis Germany. But contrary to all other countries, the United States do not need to restrain their domestic consumption, because they export the most unique and important commodity in the world – the US dollar.

- This leads me to the key point here, that is the Bretton Woods agreement that has characterised the global economic system since the end of WWII. This is definitely not a new topic; it has been analysed and exposed at length, particularly in the aftermath of the Global Financial Crisis of 2008.

- The original idea for the Bretton Woods system, in the mind of John Maynard Keynes, was a mechanism that would make countries participate on equal footing, converging to balanced trade accounts, meaning that they would neither run trade deficits nor surpluses for prolonged periods of time. For this to happen an international clearance union was supposed to be set in place, with an international unit of account to be used, called Bancor, and a system of penalties for countries either chronically in surplus or deficit, precisely to avoid the situation we are in, that is one in which a few countries hoard excessively whereas others are in the impossibility to pay out their debts.

- Instead of a clearing mechanism and an international unit of account, the United States coming out as the true winners of WWII had the USD replace British Pound both as principal unit of account for international trade, and as major global reserve currency, by maintaining the gold standard (i.e., the convertibility of USD to gold, at a fixed rate of 1$ per 35 oz), and a fixed albeit adjustable exchange rate mechanisms between all other currencies and the dollar.

- This system showed its limits by the time Nixon put an end to gold convertibility in 1971. What followed was financial deregulation and opening to free capital movements that increased inequality domestically, as well as inflating the role of financial markets relative to the real economy, up to today.

- What happens is that the US have gone on a worldwide shopping spree, not just in terms of buying (importing) commodities from abroad, and largely from China, but also shifting production abroad to developing countries, undermining workers in the US, where real wages for the bottom 50% of the income distribution have been stagnating over the past 50 years, with the difference that the US dollar still guarantees the sustainability of an otherwise unsustainable deficit.

- This all is to say that, coming back to our main concern, which is regaining bargaining for workers, increasing our living standards, expanding and guaranteeing good quality jobs for all, it is not sufficient to change fiscal and monetary policies at home, but curtail financial

markets and limit to some extent capital mobility, with the goal of making return on labour (i.e. wages) more profitable than return on capital (interest rates). It also requires reviewing current trade policies, insisting on reforming institutions like the WTO to embed ILO labour standards in trade agreements and making them implementable, support domestic investment through full-fledged industrial (possibly green-oriented) policies, and review taxation policies. We need to have an honest, open and comprehensive debate, like the one we are having today, that will go to the root causes and mechanisms of today's imbalances and think of adequate solutions for a new international arrangement. But is this conversation taking place in a meaningful manner?

- I will shift to my experience at the OECD. In most of its work and analysis, the OECD presents a comprehensive picture of current and structural economic issues, highlighting all the symptoms of an exhausted economic engine, but by the time they turn to policy recommendations, these are interpreted as the outcome of insufficient output, rather than excessive production relative to weak demand. And hence the usual package of policy recommendations to reduce barriers to market efficiency, invest in skills, boost competition, access to finance, and no mentioning of the need to strengthen incomes and wages as triggers rather than consequences of economic expansion, nor structural imbalances that no country alone can tackle in the current system. This is somewhat ironic considering that the OECD has its roots in the Marshall Plan, and that the Marshall Plan in Europe fully came to function only in coordination with the European Payment Union, a clearing system mechanism that allowed European countries to trade even absent sufficient dollar reserves and facilitating the convergence of surplus and deficit countries to zero.

- So, there is definitely a huge theoretical issue here, because the OECD (as most multilateral organisations) does not seem to apply the appropriate lenses to see the problem for what it really is, that is – one of underconsumption that requires bringing labour back at the centre of our economic systems, what we have defined at TUAC as a new form of labour internationalism to replace the current model of globalisation.

- On a positive note, still, multilateralism is not dead. After years there is again some concrete evidence that countries are realising that the system is broken and that a new concerted approach is necessary to tackle some of the world imbalances and avoid some of the most acute races to the bottom. This includes the BEPS tax agreement, for example, aiming at reducing the incidence of tax policy on profit shifting, which has often guided corporations to move headquarters to more tax-friendly environments and use a series of technical escamotages to pay lower taxes. We have been criticising certainly this agreement for a number of reasons, finding it not ambitious enough in setting a high minimum corporate tax rate, but at the same time it is a major improvement compared to no agreement at all, and it goes in the direction of saying we need an internationally agreed floor to maintain the fairness and sustainability of our fiscal models and economies at large.

- The same goes this year with the revision of the MNE Guidelines for Responsible Business Conduct. Here again the OECD is working on a new edition after more than ten years since the last, that strengthens the role of stakeholders while prohibiting enterprise interference in workers' choice to establish or join a trade union or representative organisation and put pressure throughout international value chains on all suppliers to respect the same standards.

- Now, of course what I have been criticising, the structural imbalances of a dollar-based global trade system, the financialisation of our economies, free capital movement and the compression of domestic wages goes much beyond the examples I just made. But this is a reason more why we, trade unions, the civil society, must raise the attention on this subject at domestic level, to make it a political priority, and coordinate at international level to bring it to the attention of international fora, from the UN, to the G20 and more.

- This will not come easy. The current moment is not conducive to an open and equal exchange among world powers. The US and China are at odds. We cannot forget that the original Bretton Woods, which was already downsized in its ambitions compared to Keynes's ideas, was dictated by an emerging super-power exiting victorious from a world war. Hopefully it will not take another world conflict for policymakers to sit at the table again. I believe the climate crisis will eventually push governments to address not only green policy but also the global economic framework required to underpin the green revolution and save both the economy and the planet. When such time comes, trade unions must stand ready to bring the ideas and policy propositions discussed today to the adults' room, and make sure they are heard.