

TUAC Statement

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The Global Economy Needs Sustained Growth

Those responsible for economic policy from national trade union centres in the OECD countries met on 12 November 2003 in Paris to discuss, among other things, policy action required to bring about sustained recovery in the global economy. They discussed both short and medium-term policy requirements but in the face of the uncertain outlook they prioritised immediate policy action. They agreed the following statement.

Whilst the OECD is forecasting the return of economic growth, TUAC's view is that the global economy is in a fragile position. Unemployment has risen across OECD countries and wages and household incomes are stagnating. An increasing number of workers, notably women are being forced into precarious and badly paid jobs. Subsequently, poverty levels are rising, exacerbated by the weakening of welfare systems. Many developing countries face further declines in domestic and export demand, and a further setback to achieving the millennium development goals of poverty reduction. At the same time multilateralism is increasingly under threat.

The spurt in economic output and employment growth in the US is welcome. However serious doubts remain over its sustainability. Meanwhile poverty levels and homelessness are rising dramatically both because of anaemic labour demand, and as a legacy of the dismantling of the welfare system. On the corporate side, over-capacity still exists, exacerbating still weak capital investment. The increasing and unsustainable current account deficit is a threat to domestic recovery and international currency stability. The ongoing systemic crisis in US corporate governance, including the stock exchange, along with the emerging crisis in the mutual fund industry risks further financial market instability.

Continental Europe continues to lag behind, and unemployment is rising in the major economies in the face of monetary policy that remains too restrictive, and a fiscal straight jacket, caused by a rigid Stability and Growth Pact. Domestic demand stimulation, not restrictive macroeconomic policy, accompanied by labour market de-regulation, must be the key to pushing the Euro zone back onto a growth path.

Japan meanwhile is slipping further behind as policy paralysis sets in. Deflation has been locked into the system, as policymakers refuse to accept the need for radical thinking. Unemployment has reached record levels, and shows no sign of improving indeed there is significant hidden unemployment. Real wages meanwhile are falling, so too are product and services prices, exacerbating the deflationary and recessionary conditions. The banking crisis is casting a further shadow over the economy.

Many developing countries have become trapped in inappropriate macroeconomic policies, largely determined by IMF and World Bank conditionality, with Latin America, Asia and most transition economies stagnating.

The message to policymakers is clear. Macroeconomic policy matters. And the US and UK experience, among others shows that it works, but with an appropriate mix. Concerted and co-ordinated monetary and fiscal policy action is needed to sustain economic and employment growth. Output gaps are a break on inflation and not domestic demand led expansion. Structural reforms to promote good quality work will gain public support, not simplistic labour market de-regulation. The world economy can no longer rely on the US being the sole engine of growth. Therefore, further risks should be countered by:

- European policy-makers must play their part in leading the global economic recovery. That demands a forward-looking framework for monetary and fiscal policy to implement the Lisbon commitment to full employment. Instead of preparing the ground for a rise in interest rates, the ECB has room to ease monetary policy. It should therefore cut interest rates now. Governments must boost domestic demand through capital investment in infrastructure, employees' education and training, research and development, and improving the environment. The European growth initiative in this area is particularly welcome. The Stability and Growth Pact should be implemented in a flexible manner, avoiding pro-cyclical tightening in a downturn, and allowing public investments to support recovery.
- The decision by the US Federal Reserve to continue growth supporting monetary policy into the medium term is the right one. On the public policy side, the fiscal mix must now be geared to favour support for low and middle income earners, and repairing and enhancing the social safety net. Restrictions on state level borrowing should be reversed. Corporate governance reforms need to be accelerated, and broadened to encompass the savings industry.
- The Japanese authorities have to inject significant liquidity into the economy to stimulate private sector job creation, create direct employment, and maintain and improve the social safety net so as to reduce worker insecurity. The financial system is a key component of the socioeconomic infrastructure. Reform of the Japanese banking sector necessitates a role for the public authorities. But the subsequent restructuring process will only be credible if it is accompanied by an emergency employment pact to raise employment levels on the basis of high quality jobs, and which is implemented with the full involvement of the social partners.

