NOW IS THE TIME TO REFLATE THE GLOBAL ECONOMY

Those responsible for economic policy from national trade union centres in the OECD countries met on 15-16 October in Paris to discuss, among other things, policy action required to bring about recovery in the global economy. They discussed both short and medium-term policy requirements but in the face of the worsening outlook they prioritised immediate policy action. They agreed the following statement.

The world’s three major economic regions face spiraling into recession and the risk of deflation is real. Unemployment has begun to rise in many OECD countries, and in some wages or household incomes are falling, while poverty levels rise. Developing countries face further declines in domestic and export demand, and a further setback to achieving the millennium development goals of poverty reduction. The implosion of global equity markets is having a further deflationary impact on the real economy. The risks of a war in Iraq and oil-price increases are a further negative factor.

At best the US will experience a continuation of growth insufficient to reduce unemployment but may face a full-blown recession. Highly indebted consumers cannot continue indefinitely to be the main source of growth, as median household income drops, and unemployment rises or discouraged workers quit the labour market. Meanwhile poverty levels are increasing around the country. On the corporate side, over-capacity will exist into the medium term as a legacy of the “new economy bubble”. Continued profit warnings will further weaken capital investment, and signal further declines in domestic demand and employment. The unsustainable current account deficit warns of a perilous time ahead. The recent swathe of corporate scandals points not to the behaviour of a few “bad corporate apples”, but rather a systemic crisis in US corporate governance.

Europe is stagnating with growth forecasts of around 1 per cent this year, 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 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. The failures of the externally imposed neo-liberal policies of the IFIs are starkest in Argentina, with the risk of knock-on effects throughout the region, while financial markets have yet to understand that democracy, and their own vested interests in the Brazilian economy are not the same thing. Many parts of Asia too are suffering, while most transition economies stagnate.

The message to policymakers is clear. OECD Finance Ministers and Central Bankers must take immediate, concerted and coordinated monetary and fiscal policy action to kick-start economic and employment growth and reflate the global economy. European policy-makers must take the lead on global economic recovery by establishing a forward-looking framework for monetary and fiscal policy. Increased domestic demand should be prioritised to rebuild consumer confidence and job creation. The ECB with more space to act on monetary policy must aggressively cut interest rates, with the US Federal Reserve following suit. Japanese workers expect a credible long-term policy vision from the government – continued policy paralysis weakens consumption and confidence. The Japanese authorities have to inject significant liquidity into the economy to stimulate private sector job creation, create direct employment, and build the social safety net. On the fiscal side the European authorities should reform the Stability and Growth Pact, beyond that required to allow the automatic fiscal stabilizers to work, so as to create pro-growth European economic policy. US fiscal policy should prioritise investment spending, along with the restoration of social safety nets, and tax breaks for those on low incomes. Reform of the Japanese economy, including the banking sector is urgently required. That will necessitate an enforced role for the public authorities. But subsequent restructuring will only be credible if an emergency employment pact to create new jobs, and protect existing ones is implemented with the full involvement of the social partners.