TUAC
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BASED IN PARIS 2018
FOUNDED IN LONDON 1948

# TUAC Assessment of the OECD Interim Economic Outlook 2018

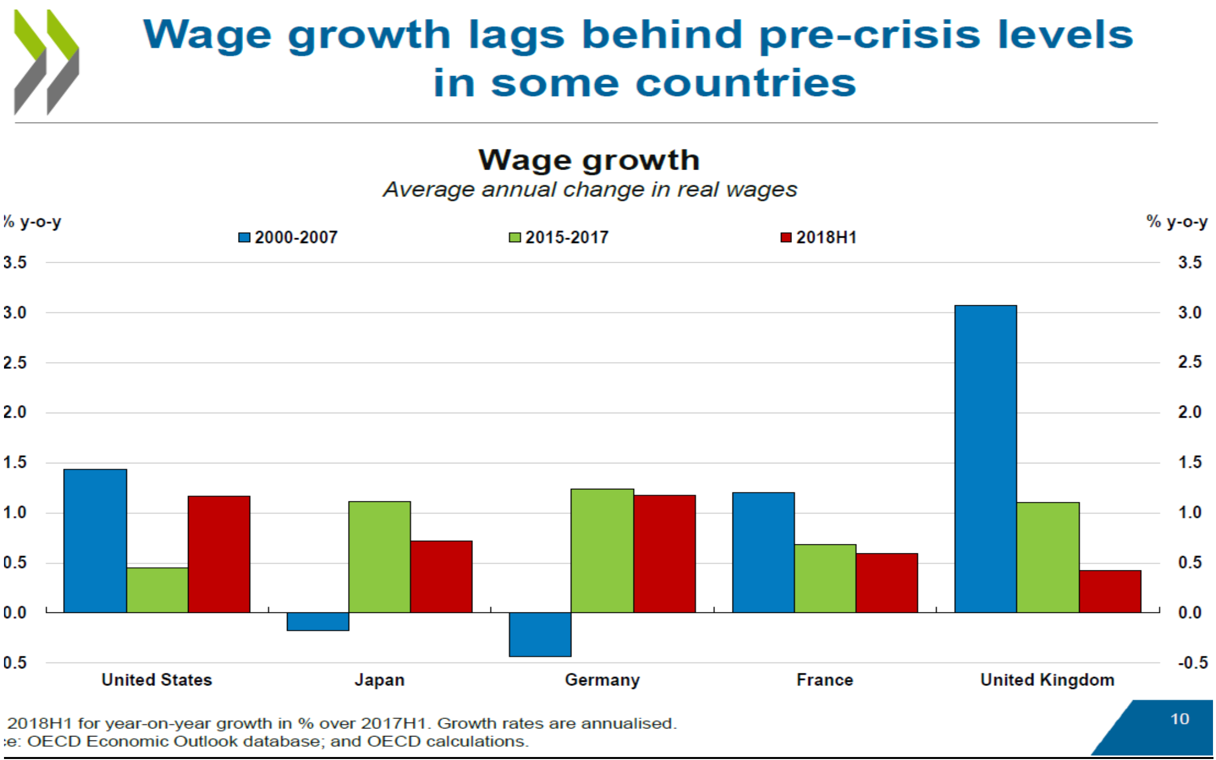
*High uncertainty and inequality in wage bargaining power are weighing on global growth*

Paris, 20 September 2018

## Weak bargaining position of labour is preventing a stronger recovery

The Interim Economic outlook released today like previous editions reiterates that "surprisingly" low wage growth prevents household disposable income from rising, especially of lower income households.

At the same time, the OECD remains silent about one of the key reasons for that: a weakened bargaining position of workers, resulting not least from past-misguided structural reforms. This has now become a significant obstacle for a stronger recovery. Sluggish wage growth is holdings back demand and growth dynamics and at the same time weakening incentives for management to improve productivity. Hence, it is not just high uncertainty from trade disputes but also pronounced inequality in the bargaining position between labour and capital that is weighing on global growth. The time has come for the OECD to include the latter in its policy recommendations.

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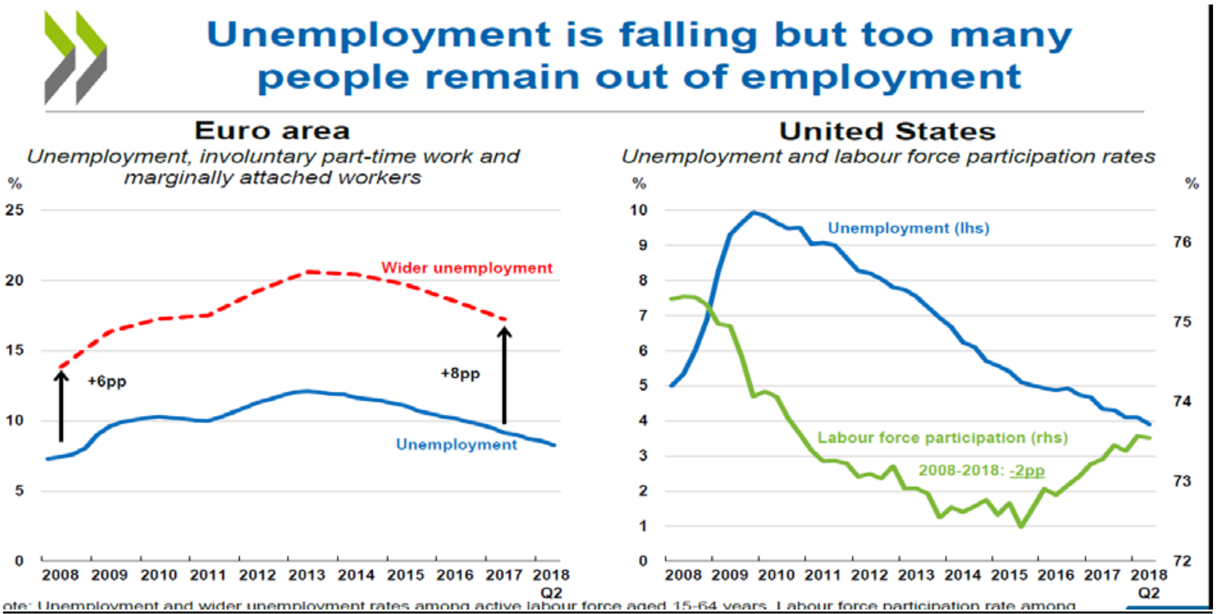
## Monetary policy "normalisation": Proceed only with utmost care

Concluding that the economic expansion may have now peaked, the OECD also recommends a gradual normalisation of policy, in particular of monetary policy.

Such normalisation, however, does not square easily with several facts that point to the existence of higher than presumed labour market slack:

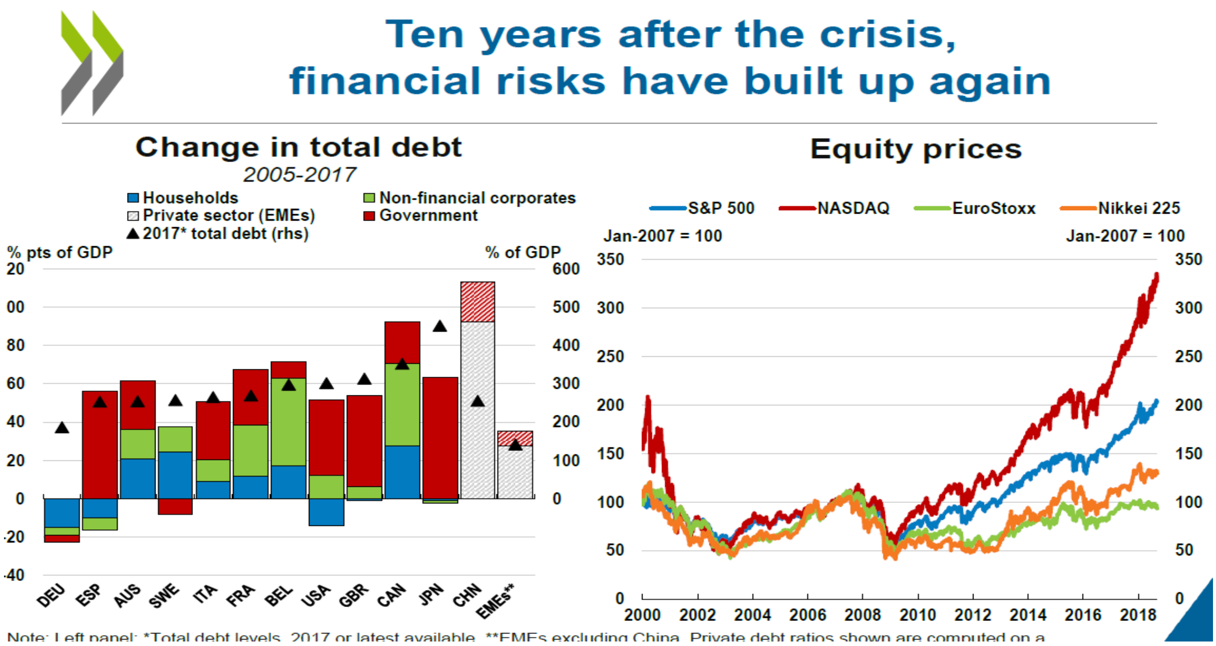
- In the US, the jobs recovery is only now reaching worker groups which until recently were marginalised and with little access to job opportunities. For this process to continue, policy needs to prolong its support for the recovery.
- In Europe, as recognised by the interim forecast, involuntary part-time work rates are still high.
- Moreover, wage growth remains weak, despite falling unemployment rates. This suggests that the jobs recovery still has some way to go.

As core inflation is still at historical lows (for example 1% in the euro area and only 0, 5% in Japan), monetary policy has ample scope to test the boundaries of so-called structural unemployment and to drive unemployment rates further down. <u>To prevent 'normalisation' from turning into a missed opportunity to create more jobs, this policy step should be undertaken very carefully.</u>



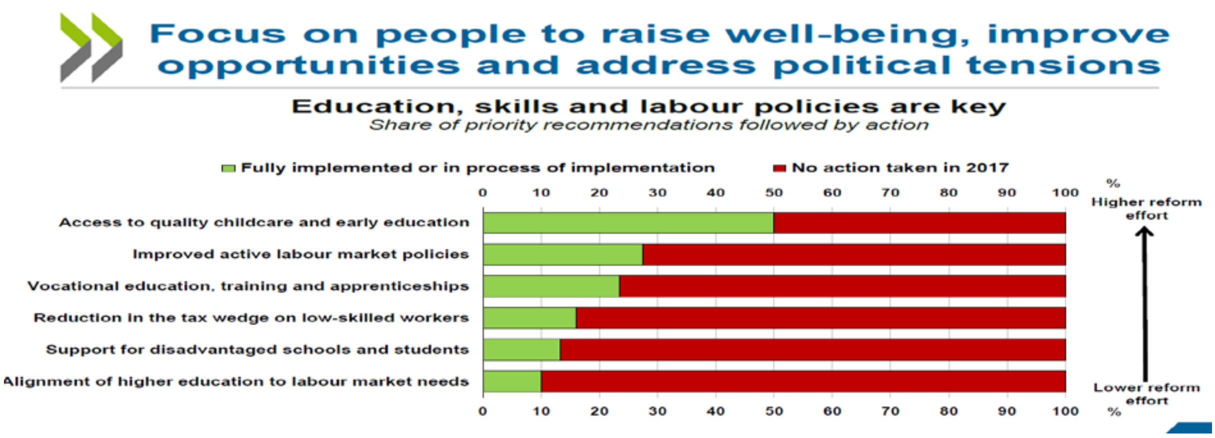
## OECD acknowledges remaining financial vulnerabilities

Ten years after the crisis, financial market reforms have de facto prevented a reduction in debt leverage and financial vulnerabilities. Instead, debt to GDP levels tend to be higher than before the crisis and credit provision has actually expanded in the shadow banking system, shifting risks from the banking system to other financial institutions and in some markets asset prices have 'skyrocketed'. Here, the OECD is right to insist that much remains to be done, and also to warn against the risk of 'a faster-than-expected normalisation' of interest rates triggering new financial instability.




## Structural reform with a 'human face'

While the OECD repeats its usual call for policy makers to accelerate structural reforms, the focus has shifted more to reforms that support people in coping with structural change (education, skills), and redistribute towards lower income households.



The strong link, made by the new OECD Chief Economist in the press conference, between fiscal policy, public investment and structural reforms is striking: <u>when growth has peaked, fiscal policy should not be used to boost consumption, but should instead prioritise public investment so that future growth potential can be improved</u>. This is an implicit but clear reference to the US pro-cyclical budget cutting taxes for corporations and high-income households, while there are at the same time pressing needs to raise investment in education, training and childcare to get labour market participation back up.