Overview and key messages

On the 150th anniversary of the TUC and the 70th anniversary of the TUAC, a joint conference was organised in London on the 12th of November. Under the overarching theme of drawing the lessons from the 2008 Financial Crisis, speakers and participants discussed some of the big international economic issues facing trade unions and the political left, to help develop policies and strategies at the international level. Below are some of the key messages, followed by a more detailed impression of the discussions.

KEY MESSAGES:

- Globalisation has become a runaway train breaking the post-war social contract: paid work is no longer a guaranteed way out of poverty in the UK
- Populism and anti-politics are a reaction to this but instead of an inward-looking agenda the solution must come from the global stage. To foster a global debate on an alternative approach, the global Trade Union movement has a key role to play.
- Immediate reform to the global architecture includes better macro coordination between countries, strengthening global reserves, making use of capital control mechanisms, public development banks and, last but not least, international cooperation in favour of wage led growth.
- Better understanding of the global monetary architecture and associated domestic goals under the Bretton Woods era that were so successful for global prosperity and the standard of living with the aim of a new Bretton woods for today's world.
- Trade unions and collective bargaining make a difference. They work to improve wages and working conditions, keep inequalities under control and contribute to better quality jobs and contracts.
- Technology is not behind the decline in the labour share. What is driving this decoupling of wages from productivity is a secular weakening of workers' bargaining power, brought about by globalisation, financialisation and falling trade union membership or collective bargaining coverage.
- Growth is often "wage-led" with a higher labour share resulting in more, not less investment and growth.
- Strong trade unions are indispensable to make growth 'inclusive'.

FIRST SESSION: GLOBAL MONETARY REFORM TO RIVAL POPULISM AND PROTECTIONISM

The first session delved deeper into the G-20 process and the international response to the Financial Crisis. It featured a keynote address from Gordon Brown (former UK Prime Minister and Chancellor of the Exchequer) and then presentations from Professor Stephany-Griffith Jones (**Financial Markets Program Director at the Initiative for Policy Dialogue at Columbia University**), Ann Pettifor (council member, progressive economy forum) and John Evans (former general secretary of TUAC). The speakers addressed global trends since the financial crisis, with a good deal of focus on role of the international monetary system.

Globalisation was now a runaway train.

Obvious symptoms in the real world were the deeply rooted decline of wages and manufacturing, the shift of production from west to east, and associated global imbalances. The post-war social contract is now broken: in Britain paid work no longer guarantees a way out of poverty; 4 million children are in poverty and upward mobility has reversed, with only a 30 per cent chance of children doing better than parents.
There are ongoing and serious fragilities in the financial arena: the emergence of shadow banking, in parallel to regulators clamping down on conventional banking and unsustainable lending from G7 financial institutions to corporations in emerging markets. These had been exacerbated by the adverse and unstable impact on the South of monetary policies in the North.
In the wake of the crisis, the left was unable successfully to make the case for substantial fiscal policy. All speakers lambasted the role of the German finance ministry in containing European fiscal expansion, while earning a vast (and in fact rule-busting) trade surplus. The intellectual argument is still to be won and must be won. Higher aggregate demand, via wages, was essential.
Fundamentally, the 'Washington Consensus' approach is intellectually broken. However, the scale of political capture ahead of the crisis and the central role of the UK was perhaps sidestepped.
The reaction has been populism and anti-politics taking hold, with politicians expected only to articulate anger not solve problems. Any political agenda was inward looking, seeking to contain trade and migration and echoing the protectionism of the 1930s.
In contrast, the speakers saw the solution must come from the global stage, as a matter for internationalism.

The Bretton Woods conference was recalled, as were other post-war initiatives that the TUC/TUAC conference was commemorating. Stephany Griffith-Jones and Ann Pettifor called for decisive reform of the global monetary system, or rather 'non-system' referring to Jose Antonio Ocampo – who has been a long time critic of the international monetary (non) system and a proponent of its reform[1].

Ann Pettifor set the present predicament ('sleepwalking into the next crisis?') in a longer context. Her narrative contrasts *public* initiative to design and conceptualise global finance, with *private* initiative only towards liberalisation. The intellectual force is Keynes, whose key work was the *General Theory of Employment, Interest and Money*, <u>with a focus on monetary processes and interests rates </u>rather than on taxation and spending.

She began a century ago with J. P. Morgan forcing the rejection of a Keynes plan to ease the burden on Germany in the immediate aftermath of the First World War. Instead, private interests prevailed, constructing a system of liberalised capital markets, exchange rates fixed against gold, high rates of interest, independent central banks and constrained governments. The consequence was a vast global inflation of private debt, and then the debt deflation of the great depression.
But Roosevelt and Keynes then began to build something new under public authority (most miss this agenda of monetary reform, seeing only protectionism), which was the foundation of the post-war Bretton Woods settlement.[2] Capital control was the norm, as championed by both Keynes and Harry White (his opposite number in the US).

[1] His open access (2017) book – *Resetting the international monetary non-system*:
http://fdslive.oup.com/www.oup.com/academic/pdf/openaccess/9780198718116.pdf

[2] Recommendation: Eric Rauchway (2017) The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace, New York: Basic Books.

The renewed *global* architecture permitted prosperity through *domestic* expansion rather than sole reliance on external trade. The result was 'les Trentes Glorieuses', the golden age. The financial system was stable; unemployment was all but eradicated in some countries; governments built decent social infrastructure.

The end came when Nixon unilaterally dismantled Bretton Woods, and domestic credit was 'liberalised'. The speakers debated the role of trade unions in reacting to rather than causing the inflation of 1970s. Vested interests began to call the shots as it has done in the 1920s. The low interest rates of the golden age gave way to higher rates. Once more, there was an explosion of private debt, culminating in the GFC and world recession.

Policymakers were given some credit for actions in the wake of the GFC, though Ann Pettifor saw them mainly serving the financial sector. *There was agreement that the position was now once again highly precarious.* For John Evans the question was why action was reversed, and the discussion turned to the power of ideas.

He cited Rodrik on the toxic combination of economic ideas and the power of banks. Ann Pettifor had opened with a quote from Rana Foroohar "To fix things we need to first tell ourselves the correct story about how we got here. Financialization is easily the least studied and least explored reason behind our inability to create shared prosperity – despite our being the richest and most successful nation in history".[3]

Tragically, all speakers saw no change in academia, though the student movement was a great thing.

Immediate priorities and constraints were outlined.

The battle for fiscal policy needed to be won. The emphasis on inequalities provided the opportunity to campaign for wage-led growth, union recognition and collective bargaining.

Stephany Griffith - Jones suggested reforms to the global architecture that were immediately practicable, not least given very tentative but partly positive steps taken in the wake of the crisis (including IMF permitting some capital control, though WTO opposed). These included better macro coordination between countries; strengthening global reserves (IMF issuing $200-400bn annually of special drawing rights). On top of liquidity provision, structural change – not least public sector development banks (long-term funds at low interest; green transformation; regional dimension; operating across private and public sectors.)

Ultimately, looking back to the creation of TUAC 70 years ago, the Bretton Woods institutions should be made fit for purpose in today's world. Given the breakdown of international cooperation, all speakers saw the global Trade Union movement having a critical role. Unions should foster a global debate and champion an alternative approach. Stephany Griffith-Jones reckoned that business could be an ally. Ann Pettifor charged Trade Unions with an educational role. In a closing rallying call, Ann Pettifor reminded us that the power of banks was not absolute. They needed QE and rising interest rates; society did not have to comply.

SECOND SESSION: TRADE UNIONS AND INTERNATIONAL LABOUR MARKET DOCTRINE

Over the past decades, international economic institutions such as the IMF and the World Bank have been promoting a deregulation agenda for the labour market. Until recently, the OECD has not been an exception to this, certainly not in its original Jobs Strategy from 1994 where the majority of policy recommendations were directed at weakening labour market institutions such as job protection, unemployment benefits or decentralisation of collective bargaining. Therefore, in the afternoon of the joint TUAC – TUC anniversary conference, the conference took this approach to task to see where labour markets are standing after two decades of following this doctrine.

Presentations were made by Stephen Machin (Centre for Economic Performance and London School of Economics), Stefano Scarpetta (Director at Employment and Social Affairs Department of the OECD) and Ozlam Onaran (Greenwich University).

[3] *Makers and Takers: the rise of finance and the fall of American business* (2016).

All presenters concurred on the basic idea that trade unions do make a difference and that difference is mainly positive. There is a “union wage premium” delivering higher wages to workers. Collective bargaining, when coverage rates are high, is inclusive as it promotes a broad sharing of productivity gains amongst workers. In this day and age of high and rising inequalities and with all sorts of precarious or informal work practices spreading throughout the labour market, trade unions are central to policy and practical action.

Speakers also approached the discussion from sometimes different but often-related angles.

Summarising research on trade unions, it turns out unions are making sure workers get higher wages (the so called ‘union wage premium’) and they do so without driving firms out of business. Unions do reduce (excess) profitability but do so in companies that tend to have pricing power on product markets. Most importantly, by driving down excess profitability and by redistributing these down the wage hierarchy, unions reduce inequality. Most recent research finds that what matters most is whether bargaining systems are coordinated that is to say, whether bargaining units take in the broader context when negotiating working conditions. Such bargaining improves employment rates, reduces inequalities and draws vulnerable groups of workers into the labour market while limiting the use of a-typical contracts. These links are also convincingly illustrated by “connecting the dots”: If wage inequality is rising, if the top incomes manage to capture an increasing share of the pie, if real wages for the median worker are stagnating since decades, if wage growth is lagging behind productivity and the labour share is falling, if the rise of alternative work arrangements is suggesting a return to the sort of informality that existed when trade unions were organised for the first time, if all of this is occurring at the same time as the decline in unions, then the inescapable conclusion is that these dismal trends are not to be seen as an unlucky coincidence but are closely related to the fact that history has not been kind to trade unions everywhere.

Indeed, in some cases, in particular in the Anglo-Saxon countries, there has been a significant decline in trade union presence. Nevertheless, in others, the change has been less pronounced and where trade unions are still operating, the effects described above still occur.

One dissonant view in the discussion was that centralised bargaining is found to be associated with lower productivity growth but this outcome was said to be based on a few country cases only and higher-level bargaining could be maintained while at the same time leaving some margins for flexibility for individual companies such as opt-outs or framework agreements

Another discussion emerged on the causes and consequences of the decline in labour share across the OECD. Research that is based on trends and data at country level, data at sector level and distinguishes between worker groups based on skills allows drawing conclusions that are different from the mainstream analysis. Whereas technology is otherwise offered as a kind of inescapable megatrend to explain why labour has systematically finding itself on the wrong side of the income distribution (and who dares to question technological progress at the danger of being put aside as a ‘Luddite’?), they are finding that technological developments are somewhat behind the falling labour share up to 1995 but no longer so afterwards. The real drivers pushing the labour share down are the decline in trade unionism and collective bargaining coverage together with globalisation weakening the bargaining power of workers as capital gets an ‘outside option’ and can threaten to move production elsewhere.

While some raised the question to what extent this matters and whether the objective is indeed to maintain the labour share, it was also stressed that recognising that strong trade unions are indispensable to reverse income inequality allows to broaden the approach to "inclusive growth", a concept that is being championed by the OECD. It also allows exploring what happens to the macro –economy: As capital has 'gobbled' up the labour share over the years, it has secured an empty victory is empty. For example, a 1-percentage point in the labour share pulls economic activity down by 1, 6% in Europe and 1, 4% in the UK. Wages thus have a dual role to play: Ensuring profitability but also make sure final domestic demand is dynamic so that firms respond by indeed investing in new capacity and by creating new jobs.

Finally, it was added that the Jobs Strategy from 1994 was indeed advocating flexible markets but this was against a background of high unemployment. More importantly, the OECD narrative had changed over the years: The 2006 revision of the Jobs Strategy for example admitted there existed 'several way to Rome', meaning that labour market flexibility was not the only way to go but that corporatist settings where social partners come together and agree on the main policy lines perform equally well. Moreover, the new 2018 update of the Jobs Strategy broadens the strategy by putting not only more jobs but also job quality as well as inclusiveness as key objectives. One issue however appears to remain and that is the idea that policy should not protect the jobs but the workers.