Trade Union Advisory Committee to the OECD
Commission syndicale consultative auprès de l'OCDE

TOWARDS A NEW ECONOMIC POLICY FRAMEWORK, BUILDING ON LABOUR INTERNATIONALISM

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THE CALL

The machine is broken

The world economy has gone backwards for more than a decade. Economic growth, as measured by traditional metrics such as the gross domestic product (GDP), is at the lowest since the 2008-09 global financial crisis. With the COVID-19 pandemic locking down world economies, we entered a new recession, while the previous one has not disappeared from the rear-view mirror yet.

In the aftermath of the global financial crisis, the prime policy response in most countries aimed at "stabilising" the banking system. Despite a commitment for new economic approaches, when the crisis shifted to the real economy, old recipes prevailed, pushing for structural reforms in the same, stubborn direction of market deregulation, flexibilisation and wage suppression, especially in Europe. This approach intimately reflected the pillars of the Washington Consensus, an outdated and inadequate set of economic principles whose deleterious effects on developing countries have been noticeable at least since the 1980s, and did not perform any better once applied to developed countries confronted with a debt crisis.

The race has indeed reached its social, economic and political bottom, enforced by autocratic rulers and labour repression. There are massive and multidimensional forms of inequality—in income and wealth, including gender[i], education and urban-rural divides—and persistently meagre macroeconomic performances across developed and emerging countries. The erosion of living standards affects increasing shares of the population, not only the bottom 40% of the income distribution, but the middle 60%, putting also the middle class under unsustainable pressure.

The general inability of policy-makers to reframe the global economic regime in order to meet the United Nations' 2030 Sustainable Development Goals (SDGs), from fighting poverty to decent work and economic growth, reduced inequality and sustainable and green environment, nor to achieve the environmental commitments signed with the 2015 Paris Agreement (COP21), is undermining confidence in both governments and international institutions.

In light of this, it can be argued that:

- ➔ *The world economy needs a fundamental rebalancing between capital and labour*. The response must be inherently internationalist, offering an alternative way forward to the false conflict between globalisation and nationalism. The true opposition is instead between an internationalism of capital and an internationalism of labour.
- ➔ *Unregulated global markets negatively affect social outcomes*. The World Trade Organization (WTO), International Monetary Fund (IMF) and World Bank have entrenched rules that have consolidated the power of multinational companies and contributed to undermine workers' rights, public services and social protection systems. The WTO does not require its members to respect International Labour Organisation (ILO) standards and has been the forum where a number of social protections were removed in the interest of increasing businesses ability to trade in other countries.
- ➔ *Economies cannot run on imbalanced engines*, expansionary monetary policy needs support by strong, coordinated and accountable fiscal intervention to steer and boost growth.
- ➔ *Societies deserve better than privatisation of gains and collectivisation of risks*, a New Social Contract [ii] is required for strengthening workers' rights, including better wages to boost growth and social cohesion.

A new international financial architecture

The roots of the present global economic disarray go back fifty years to the abandoning of the Bretton Woods Agreement[1] and the subsequent liberalisation of financial flows. The present arrangement is inherently unstable, fostering a race to the bottom synonymous with over-production (relative to the limited purchasing power subduing demand), high private debt, speculative excess (residential property, tech bubbles etc.) and financialisation.

The purpose of a new international architecture is to permit countries more autonomy for domestic expansionary policies and to support trade while containing the forces of financialisation and market deregulation, thus reducing inequalities between and within countries, promoting good quality jobs and economically sustainable growth. To this end, there is a need for more centralisation of domestic financial systems, including a more formal role for central banks in foreign exchange.

1. The Bretton Woods Agreement was a compromised arrangement. Keynes' initial project was to minimise the advantage for wealthier countries, through a world central bank issuing a multipolar money of account, into which national currencies would be convertible at fixed but changeable exchange rates.

A reorientation of activity and rearrangement of international finance should greatly advantage both advanced and emerging market economies. Nonetheless, a change of approach to support development and overcome historic disadvantages faced by Global South countries is also imperative. The private finance-oriented model for economic development has proved disastrously unstable and has worked to the detriment of global South countries particularly.

Combining monetary and fiscal policy for employment and sustainability

The benefits of an accommodative monetary policy in the aftermath of the global financial crisis helped prevent widespread deflation and stabilise financial markets, thus supporting business owners and workers alike. However, the money created by central banks did not adequately revive the real economy and fuelled inequalities. Estimates of "structural" factors (e.g. the NAIRU for inflation and output gap for GDP) are central to many current macroeconomic models, particularly central banks' interest rate calculations. They allow policymakers to declare that they are close to "full production and employment" when the economy is in recession and a significant percentage of the population is either unemployed or underemployed.

To aggravate the situation, governments have been almost entirely relying on accommodative monetary policy and fiscal austerity. Even after the outbreak of COVID-19 and the strong intervention of governments to sustain firms and workers, far more should be done to achieve coordinated fiscal policy packages that respond to current demand side weaknesses by gearing up public investment into low carbon, digitalised economies and less pronounced regional divides. [iii]

- ➔ **Expand** fiscal intervention to boost quality and productive investments in infrastructure, in climate mitigation and adaption, education, health, regional development, care economy and quality public state.
- ➔ **Co-ordinate** monetary and fiscal policy with the broader goal of sustaining economic growth in a sustainable manner that delivers decent work rather than just price stability, leveraging monetary policy to sustain strategic sectors, either directly or through private lenders, or channelling the money to consumers.
- ➔ **Shift** the governance goal and complement the measurement of growth and sustainability from national income growth to living standard improvement. GDP is valuable as a tool for economic management (as it was originally intended), not as a policy target, which should be instead good quality of living and shared prosperity.

Reversing the trend to labour individualisation

Economic policy in the past decades has obsessively focused on raising efficiency and productivity through structural reforms and the assumption that free markets, less government intervention and perfect competition would achieve economic equilibrium, full employment and better standards for all. The welfare state and labour rights have been among the most notorious victims of this ideological approach, which identified them as obstacles to the smooth function of labour markets, hence production. Forgetting the central role of wages to household income, household income to consumption, consumption to private investment, stalled the economic machine in most OECD countries. Any other attempt to substitute wage-led growth models with exports, or debt-fuelled consumption, has proven short-lived and cause of major economic instability, which led to repeated crises.

- ➔ **Re-anchor** policy regimes to the key idea of demand-driven economies and the centrality of wages for inclusive and sustainable growth.
- ➔ **Strengthen** effectively tested policies for safeguarding wage levels, such as employment protection legislation, minimum wages and collective bargaining.
- ➔ **Tackle** the mounting challenge of non-standard forms of work that erode the ability of institutions to defend social rights even in the presence of traditional forms of legislative protection.

Shifting globalisation towards social justice and climate sustainability

Financial regulation was very much on the international agenda in the period following the 2008 financial crisis, but the sense of urgency has decreased over time. Shadow or unregulated financial institutions represent still a major threat to economic stability, and are not adequately insulated from traditional banking activities, while syphoning capital resources away from the real economy.

Corporate rules also need to be addressed. Artificial structures used by multinationals to diminish their tax accountability often overlap with those built to obscure employment relationships, bypass national labour laws and avoid social security contributions.

Competition regulation has received renewed attention in recent years, due to the growing dominance of online platforms and 'born-digital' corporations. In many regions, one or more employers dominate the hiring market and are able to control wages, working conditions and employment based on their size.[iv] Traditional competition tests, with their one-dimensional focus on consumer prices, are not adapted to deal with labour market monopsonies, especially in the light of the increasing digitalisation of the economy that transcends jurisdictions and sector-boundaries. [v]

The inadequacy of current rules is being increasingly exposed as our societies start to face the challenges posed by climate change, aging population and the wide diffusion of digital technologies.

- ➔ **Fix the gaps** and the mismatches in international corporate and financial rules (trade, investment, data, competition, taxation, and banking).
- ➔ **Review** the role of regulators and existing competition rules that are proving ineffective to tackle the growing challenge posed by large digital platforms and labour market monopsonies.
- ➔ **Support** a Just Transition approach to the digital and green revolution, with particular attention to vulnerable groups of workers, and deliver concrete actions to ensure the realisation of the 2030 SDGs, addressing the current climate urgency.

What governments can do

GOVERNMENT ACTION AT THE NATIONAL LEVEL

- ➔ **To accelerate the pace of public investments** in hard and soft, physical and digital infrastructure, excluding such investments from budget deficit considerations: the positive impact on the economy will outpace any short-term consideration on debt sustainability.
- ➔ **To develop targeted industrial, climate-friendly and regional strategies** aimed at overcoming regional disparities, accompanying them with substantial fiscal transfers in the short term.
- ➔ **To give shape to a new social contract** that will counteract on the long-term falling trend of the wage share in GDP, by introducing minimum wages, strengthening collective bargaining institutions at sectoral and national levels, as well as halting the deregulation of labour markets and dismantling of the welfare state.

GOVERNMENT ACTION AT THE INTERNATIONAL LEVEL (MULTILATERAL INSTITUTIONS)

- ➔ **To reform the international financial and monetary architecture** in the direction of an international clearing system to support a step change in global prosperity, reducing global excesses and imbalances between surplus and deficit countries.
- ➔ **To re-orientate activity towards domestic demand**, with countries co-operating for full

employment, and trade as complementary rather than done under excessively competitive conditions.

- **To adjust the orientation of supranational trade organisations** such as the WTO and international trade agreements to uphold ILO standards, the Paris Agreement, protect all public services and ensure the involvement of trade unions in the formulation of policy, avoiding any special court systems that allow foreign investors to sue governments for actions that threaten their profits (Investor State Dispute Settlement style systems). New rules are required for the IMF and World Bank to ensure they support the realisation of the UN Sustainable Development goals, human rights and Just Transition, as well as a transparent and democratic decision-making process, involving trade unions and Global South countries.
- **To expand the use of investment clauses and investment programmes** to legitimate the action of single governments.
- **To keep addressing the crucial issue of base erosion and profit shifting**, and support governments in envisaging substantial forms of financial sector taxation, including bank levies and financial transaction taxes.

CENTRAL BANKS AND FINANCIAL REGULATORS ENGAGEMENT

- **To broaden the mandate of central banks** to include full employment, ecological transition and sustainability as the target and review accordingly the analytical tools (the 'NAIRU' and output-gaps, and 'natural rates' in general) on which monetary policy is informed and conducted.
- **To support the co-ordination of expansionary fiscal policies** at national and international level in a context of post-financial and post-COVID19 crises environment. Central bank "independence" should be contingent on meeting broader sustainability challenges and social cohesion, including climate, income inequality, demographic change (population ageing in OECD countries, youth in the developing world) and the digital revolution.
- **To steer monetary policy in support of productive investments** in the low-carbon economy. As the case of "green bonds" demonstrate, there is scope within the current framework to arm monetary policy in targeting strategic sectors.

The role of trade unions

The current political and economic system is putting the labour movement under increasing pressure, resulting in progressive erosion of trade union density and collective bargaining coverage. The ITUC have called out a "breakdown of the social contract". Workers need and ask for collective protection mechanisms and a collective voice.

Trade unions will always push for the central role of workers' and social rights, social justice, good living conditions and sustainable growth, supporting legislative action within and beyond their operations.

In calling for an internationalisation of labour, trade unions should prevent national retrenchment in the face of growing nationalist liberal discourse that offers no credible answer, but benefits and exploits the lack of any convincing alternative solution.

Trade unions should increase efforts to build and exploit networks and competences, also adapting to the new digital tools, developing new data skills and toolkits. By increasing the ability to handle data to analyse the state of the labour market from the workers' perspective, anticipate sectoral trends and risks, as well as seizing opportunities to expand the representation base, trade unions will make sure to maintain and reinforce their relevance to workers in the XXI Century.

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@TUACOECD
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The Narrative

2008-2020: from one crisis to another

The financial crisis of 2008 was more than a hiccup in a prolonged economic growth trajectory. It marked the breaking point of the neo-liberal economic regime that characterised OECD economies since the 1970s, with the opening of global capital markets, dear interest rates, reduced and now sustained disinflation, the progressive dismantling of the welfare state and, by opposition, greater flexibility on labour markets. Beyond OECD economies and for the Global South, this period implied also brutal economic adjustments by ingesting the pills of the "Washington Consensus", combining textbook market liberalisation without the proper institutional settings to cushion the inevitable counter-shocks, such as well-developed labour market institutions and regulatory authorities. Ultimately, the imbalance between, on the one hand, the internationalisation of capital, goods and increasingly services and, on the other, the national nature of labour markets, environmental policy and taxation systems that most often operate within national settings, is at the core of the systemic instability of the modern capitalist system. Prior to and since the 2008 crisis, what has prevailed is persistent stagnation, excessive corporate and household debt levels, low productivity, stagnating wages and extreme inequalities.

In 2020, the COVID-19 pandemic forced governments to introduce strong containment measures, in order to preserve citizens' health. This aggravated the economic impact of the virus, which at first manifested on the supply side, disrupting global trade and supply

chains, turning thereafter into a widespread recession that stalled business activity, froze consumption, depressed households' income and increased unemployment[i].

The prompt monetary and fiscal interventions in support of workers and businesses prevented a total social and economic collapse, but the global economic outlook remains utterly fragile and tightly linked to the uncertain patterns of the virus, the finding and quick deployment of a cure/vaccine, and the durability of government support.

While the full impact of the current recession is still hard to grasp, it has clearly worsened pre-existing macroeconomic imbalances. At the end of 2019, i.e. before COVID-19 emerged, the OECD raised the issue of stagnating growth, at the lowest levels since the global financial crisis of 2008.[ii] Figures indicated a marked decrease in manufacturing and industrial output, reflecting greater economic uncertainty linked to international trade tensions and a weakening global demand. The OECD also flagged the considerable wage stagnation since the financial crisis, despite, back then, improved employment figures.[iii] The same is true for real disposable income: inequalities in wealth and income that built up before the 2008 crisis have not been substantively reduced—in fact, many non-OECD sources indicate that they have increased.[iv] Meanwhile, private sector debt hit record levels, with corporate bond values doubling their pre-crisis levels.[v]

Albeit flagging the structural issues of the global economy, the OECD did not recognise the direct link between stagnating output and subdued aggregate demand as the consequence of compressed household income and low wages. On the contrary, it predicted stable and modest growth as long as governments committed to the right policies, i.e. "investing in infrastructure, especially digital, transport and green energy, enhancing people's skills, and more generally implementing policies that favour equal opportunities". Later, as the COVID-19 crisis buried all previous forecasts, the OECD endorsed strong monetary and fiscal support across the board.[vi]

Yet, the exceptionality of the current crisis does not change the OECD's fundamental assumption that it is primarily through market competitiveness that long-term productivity and stable growth are secured. Such belief that supply-side structural reforms and further trade liberalisation will lead to a global economic recovery needs to be challenged, in the absence of much more urgent and sustained actions in support of aggregate demand. Public investment and current expenditure must be raised across OECD, and particularly EU countries, to support growth and inflation rates – a target that monetary policy alone has proved unable to achieve in the permanent context of austerity and subdued economic activity.

Supply-side policies are aimed at increasing the volume of output for achieving economic growth, assuming that supply is inadequate in the face of existing demand, and therefore halting economic expansion. Thus, raising productivity, i.e. the efficient use of labour and capital to achieve higher production, is the correct policy approach to secure growth, since higher production will lead to more labour and higher demand (the classical "Say's Law"). On top of that, it is assumed that market forces are the most suited to allocate existing resources in the economy for the highest economic growth. Thus, the state shall intervene only to remove obstacles to perfect market competition, avoiding any major role in the market – the idea of a minimal state and liberal economy.

What if the problem were not production constraints, but rather feeble demand for existing production capacity? This is the reverse of the conventional interpretation, where supply (and usually productivity) is regarded as inadequate in face of excess demand. Instead, supply is excessive *relative* to deficient demand, i.e. to low wages and purchasing power. The thinking is not new, past debate wrestled with the distinction between under-consumption and over-production, an issue that was also tackled by the Marxist school, from a class struggle perspective, and by Keynes and the post-Keynesian, but relegated to the margins of the mainstream economic discourse for the past fifty years. In this perspective, it is not surprising to think that the current capitalist system runs below its full capacity, dragged down by a lack of consumption that inhibits private firms from investing in the face of subdued demand expectations. A self-fulfilling mechanism in which low productivity is not the cause, but the symptom of chronical economic stagnation.

Thus, in a longer-term view, the fundamental need is to rebalance profits and wages. The ability of capital freely to move from country to country and chase the lowest labour standards is inherent to the global race to the bottom. A race that is synonymous with over-production, as intended above, high private debt and speculative excess (residential property, tech bubbles, etc.), propelled by unstable and vague notions of global competitiveness, rigged by financialisation, imbalanced trade, fragmented tax and investment systems and, not least, threatened by digitalisation and climate change.

An alternative international arrangement would contain the movement of capital and support a levelling up of labour standards: an internationalism of labour rather than capital, which would ensure production and purchasing power to expand together. It would raise prosperity by internal rather than external demand; bring back full employment as a primary economic objective (involving a degree of 'onshoring', which might indeed be propelled by the COVID-19 crisis) and level up the global system as a whole.

In the words of Richard Kahn, Keynes «*wrote that "if nations can learn to provide themselves with full employment by their domestic policy [...] there need be no important economic forces calculated to set the interest of one country against that of its neighbours" [General Theory, p. 382], each country's exports benefitting from the other countries' high level of activity. The world still has to accept this simple lesson taught by Keynes*».[vii]

Steering growth through mutually supportive fiscal and monetary policies

Monetary policy has been used to react to economic downturns or inflation in normal circumstances. The Great financial crisis and the weakness of the post-2008 recovery have led to the use of unconventional monetary policy, since regular monetary policy was not effective enough during this time. Central banks had started buying financial assets from commercial banks to provide additional liquidity in the financial sector to finance public and private investment at a low cost. The threat of a second financial crisis in slightly more than a decade, triggered by COVID-19, pushed central banks to prolong and expand such accommodative monetary programmes.

The failure of QE in a context of zero-bound interest rates

These actions correspondingly led to an expansion of central bank deposits (or the monetary base). Quantitative easing (QE) has become standard practice for all major central banks, given the weakness of the post-2008 recovery. It has helped prevent deflation and secure otherwise fragile financial markets, thus supporting business owners and workers alike. However, its benefits are not evenly distributed. The money created by central banks enters the system largely through private banks and investment firms, but it has not revived local economies. The monetary inflows and lowering cost of capital have not translated into any real pick-up in corporate investment. The hurdle rate (i.e. the minimum return on investment that a company expect before taking a decision to invest) remains sticky at 10-12%. Rather than undertaking productive investment or fuelling consumption, increased profits have been parked in shareholder dividends and corporate share buybacks, fulling asset bubbles and increasing economic inequality rather than growth.[viii]

In parallel to this, corporate debt has continuously grown over the last decade, reaching historic record amounts[ix]. According to OECD findings, by the end of 2019 the stock of non-financial corporate bonds reached the record-high level of USD 13.5 trillion, 15% of which was issued in 2019 only[x]. Furthermore, more than half of the new corporate debt issued between 2016 and 2019 is rated BBB, maintaining a barely investable outlook precisely thanks to prolonged expansionary monetary policies. Unconventional monetary policies have boosted short-term investors' "appetite" for non-investment grade corporate bonds and, doing so, have increased higher risk companies' access to corporate bond markets. Emergency purchase programmes of corporate bonds and commercial papers during the COVID-19 pandemic have worsened the picture.

Low interest rates on government bonds for advanced economies should not be confused with a low interest rate environment. Since the 2007-09 crisis, financial institutions have been obliged to take higher risk to secure the high returns to which they have been accustomed. The latter also include pension funds, and so pensioners are bearing some of the risk.

In general, high interest rates are the defining characteristic of internationalism on the terms of capital. For four decades – from the 'Volker shock' – capitalists have earned exorbitant returns. Debt crisis are fundamentally the result of borrowing not in excess quantities but at an excessive price. Under the Bretton Woods regime, lower interest prevailed and debt crises did not happen.

Interest rates are a powerful tool of monetary policy, which is especially effective in combatting high inflation and maintaining economic growth when properly complemented by adequate expansionary fiscal policies. However, current monetary policy reached its limits since historically low interest rates do not allow addressing economic downturns effectively. Trade unions are not opposed to QE, given its important role in stabilising the broader economy. However, they are calling for a re-examination of how it is implemented. Rather than distributing liquidity to financial institutions, where much of it remains withhold without reaching the real economy, central banks should consider ways to either set conditions for productive investment (e.g. with a "Green New Deal") or channel the money directly to consumers to increase demand and drive economic growth. Such measures, however, can only be considered as bridging

support to households' purchasing power. In the process, a structural rebalancing between capital and labour, profits and wages will be necessary in order to sustain demand in the longer run. In this sense, only a rise in wage levels would ensure that inflation targets set by central banks are adequately met, bringing the possibility to raise interest rates again.[xi] This would help alleviate the mounting pressure on financial institutions that have a long-term social purpose (insurance companies and pension funds) but would need to be carefully planned and gradually introduced, to avoid damaging the economy.

The conceptual failures of NAIRU and the "Output Gap"

As core inflation is still at historic lows, monetary policy has ample scope to test the boundaries of so-called 'structural' unemployment and to drive unemployment rates further down.[xii] Estimates of structural unemployment like the "Non-accelerating inflation rate of employment" (NAIRU[1]) are central to many current macroeconomic models, particularly central banks' interest rate calculations. It allows policymakers to declare that they are close to "full employment" when a significant percentage of the population is either unemployed or underemployed.

In contrast, recent evidence suggests that true full employment—with everybody who wants to work employed except for those in the process of changing jobs—has few of the negative consequences once envisioned. In particular, the Phillips Curve, which postulated that low unemployment would cause high inflation, has not matched economic data for decades.[xiii] As a result, prominent economists have begun to question whether structural employment has any place in monetary policymaking, given its apparently cyclical nature and the willingness of non-employed people (not currently seeking jobs) to join the labour market if wages are high enough.[xiv] As Matthew Klein argued in the Financial Times: "in addition to being morally odious, the theory is empirically unsupportable and is increasingly questioned by a younger generation of central bankers".[xv] The focus on employment in policymaking ignores the quality of new or existing jobs, which in many low-unemployment countries (US, UK, Germany) is quite low. Trade unions see precarious work as little better for workers than unemployment. Instead, they encourage policymakers to rely on other indicators to set monetary policy, such as inflation estimates, rather than unemployment statistics.

As in the case of NAIRU, the "output gap" is another synthetic indicator that has influenced both monetary and fiscal policy in the past decades. It is a widely used metric to assess the difference between observed GDP and unobservable, or potential, GDP, defined as the level of output at which capital and labour are used at 'non-inflationary' levels, similarly to the NAIRU. The basic aim is simple: if fiscal policy is ought to be countercyclical, i.e. expansionary at times of recession and contractionary during economic growth spells, policymakers should be able to quantify by "how much" they need to expand or reduce their fiscal expenditure to respond to the current economic cycle.

[1] The term was coined by Modigliani and Papademos in 1975 to improve on Friedman's "natural rate of unemployment", but it still reflects many of the same prejudices in favour of capital rather than labour.

The IMF, the OECD and the European Commission routinely calculate estimates of countries' potential output. This indicator informs central banks about economic forecasts and helps to set fiscal objectives for governments, particularly in the euro area. The major drawback, though, is that in order to project the output gap into the future, estimates are based on past rolling average levels of productivity. This implies that the calculated level of the potential output will heavily depend on current (past) levels of output. As it happens, at times of recession, such as after 2008, estimated potential outputs were low and close to current levels of real output, suggesting to policymakers that there was little need for countercyclical measures, since economies were running close to their full potential.

While the notion of potential output is highly controversial, policymakers often abused - more or less willingly- of its pretended neutrality in order to call for austerity measures at times of recession, under the false claim that economies were running close to their full employment and output equilibria. Thus, the technical assumptions underpinning the output gap remain controversial and its political implications far from neutral.

Fiscal policy

Monetary policy in recent years has (i) increased inequality and (ii) lost its efficiency to tackle economic downturns effectively, because of the inadequacy of fiscal interventions to complement monetary policy and the lack of regulation in the banking and financial industries. To prevent a slowdown of the economy, coordinated fiscal policy packages would address current demand side weaknesses more effectively, by gearing up public investment into low carbon, digitalised economies and less pronounced regional divides.[xvi] Fiscal policy can provide the needed flexibility and lift aggregate demand when economies face weaker growth.[xvii] This is possible without excessive levels of public debt or increased taxation[xviii] while focussing on future challenges: climate change,[xix] investing in the care economy,[xx] infrastructure, training programs and social protection to combat rising inequalities.

A commonly agreed counter argument revolves around the risk for the public sector "crowding out" the private sector. According to the standard neoliberal point of view, a reduction in government expenditure boosts private sector growth, resulting in higher GDP growth. However, the analysis of the recent austerity-driven expenditure cuts show a rather different picture: for the British Trades Union Congress, "in all countries where government expenditure was cut, GDP growth slowed. The only countries where GDP growth increased […] were those where government expenditure was increased".[xxi] Even the IMF has recently re-positioned on the subject, stating that "*public investment can have a powerful impact on GDP growth and employment during periods of high uncertainty—which is a defining feature of the current crisis. For advanced and emerging market economies, the fiscal multiplier peaks at over 2 in two years. Increasing public investment by 1 percent of GDP in these economies would create 7 million jobs directly, and between 20 million and 33 million jobs overall when considering the indirect macroeconomic effects.*"[xxii]

The decline of the progression within the taxation system is not helpful in this regard. Research finds that pre-tax income share in the US distribution for the bottom 50 percent has fallen from 20% to 12% between the 1980s and 2014, whereas it has increased from 12% to 20% for the top 1 percent. The situation is unchanged for the post-tax national

income, suggesting a failure of the US taxation system in redistributing income across the board.[xxiii] Enhanced fiscal policies could efficiently tackle this issue,[xxiv] not only supporting the economy in a period of downturn, but also re-distributing resources to reduce inequalities and to achieve growth through sustained (and sustainable) demand.

The engines of wage-led growth and social cohesion

The OECD's policy narrative on structural reform has improved on some aspects such as skills, job security and social protection. However, the core recommendations remain centred around the individualisation of risks and opportunities within the economy, buffered with limited safety nets and trainings to help fix market failures *ex post.*

Since the 1980s, the public discourse has centred too much upon the tension between free market competition and state intervention, failing to understand that in a context of under-consumption the true struggle lies between capital and labour. Historically, the three decades after the end of the Second World War were characterised by prolonged, stable growth, low unemployment and shared prosperity - what the OECD declares to be its policy goal today. Yet, this achievement was possible because at that specific time the interplay between interest rates and wages was reversed compared to nowadays: real returns on capital were low and the labour share in GDP across major OECD economies was high. This ensured a strong domestic demand (investment and consumption) that underpinned economic growth for a prolonged period in time. Today, domestic wages remain compressed, undermining household income and aggregate demand. International trade plays a pivotal role, but cannot replace the function of domestic demand, particularly in a global environment of free capital movement and limited redistribution through wages and taxes. The only other alternative, debt-fuelled consumption, has only led to instable growth and economic crashes.

For this reason, it is important to bring back quality employment and wages to the centre of the policy action. Employment protection legislation (EPL) and minimum wages can be adequate tools to provide income and job security, *ex ante*. However, they need to be complemented with strengthened collective bargaining systems, in order to ensure sustainable labour market health. Collective bargaining at sectoral and national level is a key tool to set floors and deliver more targeted solutions for a fairer income distribution and improved job quality.

Employment & social protection floors

Employment protection legislation provides a basic guarantee of rights even for workers not covered by a collective agreement. In recent decades, the idea of "labour market flexibility" has gained influence, including within the OECD. It proposes removing barriers which protect workers from being fired without adequate warning,[2] justification, or compensation; this would result in economic dynamism (with "free job flows" and reallocation of workers to more productive firms) providing incomes and growth for everyone. However, the OECD has recently softened its position, stating, "most studies at the macro level find that EPL has no significant effect on aggregate employment and unemployment" and "several papers have found a negative association of EPL with

[2] No requirement for severance pay upon dismissal, for example, would be inadequate.

income and wage inequality".[xxv] Recent studies arrived to the same conclusion,[xxvi] while others have found that the weakening of employment contracts has resulted in a rise in part-time employment and precarious work in many countries.[xxvii] The productivity increase, which supposedly derives from labour market deregulation, has not materialised; instead, productivity seems to respond better to strong demand, as already discussed, rather than to labour market reforms.[xxviii]

Another tool for ensuring income security is the minimum wage. Besides guaranteeing fair payment, a minimum wage has the major advantage that workers who are not able to unionise can profit from it. This is important due to the ever-growing number of precariously employed. In parallel, other forms of wage and labour rights compression, such as bogus self-employment, must be controlled for. Previously predicted negative effects of a minimum wage on the labour market could not be observed after its introduction.[xxix] However, the efficiency of a minimum wage is rather country specific. The success of the minimum wage is highly dependent on the economic situation, making a frequent re-evaluation of the minimum wage essential. It is important that the minimum wage be adjusted with regard to changes in inflation and to the purchasing power parity of individuals. For the time being, this is not sufficiently provided by politics, and real minimum wages are lagging behind.

Bargaining power

Collective bargaining remains the best, most flexible tool for ensuring workers' rights, a fair labour share of GDP and social solidarity. The OECD, historically cautious about trade unions, has increased its explicit support for collective bargaining: a chapter of its 2018 Employment Outlook was devoted to its role in good labour market performance,[xxx] and a dedicated report, *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work*, was published in late 2019.[xxxi] Also according to the OECD, "the work environment tends to be of higher quality in firms with a recognised form of employee representation", while "co-ordinated systems – including those characterised by organised decentralisation – are linked with higher employment and lower unemployment (also for young people, women and low-skilled workers) than fully decentralised systems". This aligns with long-time trade union objectives regarding the rationale and benefits of having representative workers' organisations in every workplace, at the sector level and national (or international) coordination. Collective bargaining systems have positive effects on economic and geographic inequalities, as well as political stability, and can support better linkages between productivity growth and wages.

The rise of non-standard forms of work

Informal work is persistent and non-standard forms of employment are on the rise across the OECD,[xxxii] causing a dramatic shift towards precarious labour in various sectors. The ITUC reports that 60% of the world's workers are still working in the informal economy. Meanwhile, new platform businesses leave on-demand workers with no rights, no minimum wages, no social protection and no labour rights.[xxxiii]

Such trends result from "[earlier] policy responses to globalisation [that] included labour market reforms aimed at supporting competitiveness by increasing flexibility and deregulation in the labour market. Therefore, globalisation coupled with labour market

reforms were identified as key factors for the rise in non-standard and precarious employment"[xxxiv]. These aspects call for new laws to protect the mass of precarious workers and help clarify employment relationships and rights, set minimum wages and ensure that they can organise and be represented by trade unions. As of now, also due to competition law restrictiveness and union-busting business models, many self-employed workers are not covered by collective bargaining agreements and do not have access to collective representation at all.[xxxv]

The same holds for part time work: while, on the one hand, part time employment might be good for flexibility, on the other it significantly reduces bargaining power, weakening workers' position. The TUAC and trade unions around the world have been pointing out these issues for a long time.

Addressing imbalanced globalisation while facing the challenges of the future

In order to steer the global system towards a labour-friendly economic regime, fiscal policy and favourable labour legislation will not be enough. Pushing against it are different factors that can be split in two pillars. On the one hand, a strongly imbalanced international financial architecture, that exacerbates world wealth polarisation and inequalities between countries through:

- the excessive financialisation of modern economies, threatening sovereign states by means of capital mobility and inherent instability;
- the lack of an equalising supranational mechanism, smoothing divergences between developed and developing, surplus and deficit countries.

On the other hand, national and international laws that serve the interest of multinational enterprises, feeding global inequalities, and the generational challenge to re-address policy action towards the most urgent global threats, including:

- the legislative conundrum of taxation and competition laws in the globalised economy;
- historical megatrends affecting capitalist economies, from aging population to digital and climate transitions; and
- a fundamental need to distinguee and re-orient the main political goal from economic accumulation to life quality and people's satisfaction.

Reforming the international financial architecture

Financial regulation was very much on the international agenda in the period following the 2008 financial crisis, but the sense of urgency has decreased over time. With the lower scrutiny comes the risk that financial regulations may be relaxed. Trade unions understand the need for financial intermediation in the modern economy and support the traditional functions of banking, from business loans to mortgages. However, much of what happens in the modern financial world has little connection to the productive economy and serves only to enrich financial investors. In 2016, the OECD finally accepted the use of the term "financialisation"— "the increasing weight of financial activities and institutions in our economies".[xxxvi]

As discussed at the TUC-TUAC joint conference in 2018, the roots of the present instability across the global economy go back 50 years to the abandoning of the Bretton Woods Agreement (BWA) and the subsequent liberalisation of financial flows. It is unsurprising that the removal of arrangements put into place after the great depression has led to a renewed financial crisis unprecedented since that depression.

However, the BWA was a compromised arrangement heavily dictated by US interests. Keynes's clearing union offered a genuine multipolar arrangement that should minimise the advantage for richer countries. Under such approach, a world central bank would issue a multipolar money of account, into which national currencies would be convertible at fixed but changeable exchange rates. The system might also be tiered, e.g. by continent. In 1943, Keynes saw his scheme as "utopian in the sense, not that it is impracticable, but that it assumes a higher degree of understanding, of the spirit of bold innovation, and of international co-operation and trust than it is safe or reasonable to assume".[xxxvii] Today advocates of change can be found in both the policymaking community and on the left of politics. At Jackson Hole, Mark Carney, the Governor of the Bank of England, argued "While such concerted efforts can improve the functioning of the current system, ultimately a multi-polar global economy requires a new international monetary and financial system to realise its full potential".[xxxviii] DiEM25, the coalition of diverse political traditions aiming to repair the EU, have set out proposals for a European Clearing Union (ECU) as part of their 'European New Deal' proposal.[xxxix]

Any such arrangement would amount to, as Keynes put it, the implementation of banking principles into the field of foreign exchange, rather than the present market-oriented mechanisms for foreign exchange. There would be a need for more centralisation of domestic financial systems, including a more formal role for central banks in foreign exchange. The operation of the European Payments Union of the 1950s might provide a rudimentary template.

Monetary policy (in part operating in tandem with fiscal policy) should foster conditions at domestic level for high good quality employment and higher real wages. Given the failure of the NAIRU, the low and precarious levels of employment and capacity utilisation, there is nothing inherently inflationary about such an arrangement. Inflation followed the relentless pursuit of higher growth in the 1960s and 1970s, not low unemployment.

Finally, a reorientation of activity and rearrangement of international finance should greatly advantage both advanced and emerging market economies. Nonetheless, a wider strategy for economies in the global South is also imperative. The private finance-oriented model for economic development has proved disastrously unstable and inadequate. Instead, there should be a more important role for supra-national institutions and public loans and grants at very low interest rates.

While amounting to a very different approach to global prosperity, the present arrangement has led to repeated crises, ongoing financial instability, pressures from private debt, wage crises and the imposition of austerity. Looking at major economies, productivity performance -the most orthodox of measures- in the golden age of the 1950s-1960s, was vastly superior than ever since. This performance was driven by

domestic (both private and government investment) rather than overseas demand. In parallel, the arrangement was more stable and private debt expanded only modestly.

Moreover, the present economic regime remains highly vulnerable to the next potential financial crisis. While potentially disastrous for the public, trade unions must be ready to seize any renewed crisis as the basis for decisive change.

Fixing international trade & investment rules

The unchecked liberalisation of trade and investment flows has to be challenged. The ability of capital to freely roam across international borders poses serious threats to workers that cannot relocate as easily, pressuring wages and labour standards through a rat race to the bottom, exercising a downward pressure on human rights and working and environmental conditions globally. In the same vein, the corporate benefits of Foreign Direct Investment (FDI) do not translate into better jobs and higher wages for all workers.

Trade policies need to put at their core the protection of fundamental and human rights, including workers' and trade union rights, the preservation of the environment, and the safeguarding of public services.

Binding clauses must be included in trade and investment treaties, guaranteeing that no multinational enterprise is allowed to carry cross-border business if it does not bring the evidence of compliance with fundamental workers' rights, as described in the core ILO Conventions. A mandatory due diligence process carried hand in hand with trade unions is a fundamental aspect to achieve this goal.

Furthermore, in view of the damaging concentration of market power a progressive trade policy must be part of broader new economic and industrial policy aiming at promoting sustainable development.

Fixing corporate taxation

Corporate taxation is an essential priority for trade unions, both to ensure that governments are properly funded, as well as accountability for multinational enterprises (MNEs). The current OECD guidelines (under review in the "BEPS" project[3]) rely on "transfer pricing" and the related "arm's length principle", according to which subsidiaries and establishments belonging to the same company group can trade with each other as if they were independent entities, as long as these transactions follow market price. TUAC has long been critical of this approach.[xl] Often, artificial structures used by MNEs to diminish their tax accountability (e.g. letterbox practices) overlap with those built to obscure employment relationships, bypass national labour laws and avoid social security contributions. Trade unions maintain that MNEs should be treated as unitary global entities and their global profits split among jurisdictions according to a fair allocation key. Furthermore, the introduction of an effective minimum corporate tax rate globally is an indispensable tool to limit tax competition between countries.

[3] The project involves experts and policymakers from across the OECD collaborating to produce a new international taxation framework for major economies. It hopes to deal with a variety of issues, from tax havens to digital business operations. For more information, see www.oecd.org/tax/beps/.

Achieving this ambitious goal will require extensive multinational cooperation, and trade unions should be a part of that process. Tax transparency and workers' access to the tax schemes of their company is therefore an indispensable step towards fairer tax practices and a better share of corporate income with the workforce.

Competition regulation has received renewed attention in recent years, due to the growing dominance of online platforms and "born-digital" corporations. Regulating such companies is crucial to ensure sufficient competition in product markets, from merger-and-acquisition reviews to preventing collusion. Simultaneously, trade unions encourage increased attention to competition in labour markets. In many regions, one or more employers dominate the hiring market and are able to control wages, working conditions, and employment based on their size.[xli] Traditional competition tests, with their one-dimensional focus on consumer prices, are not adapted to deal with labour market monopsonies, especially given the increasing digitalisation of the economy that transcends jurisdictions and sector-boundaries.[xlii] Competition regulation must restrain the dominance of corporations in both product and labour markets in order to ensure a proper functioning of the economy.

The Just Transition approach

Internationalism on the terms of capital has exacerbated the climate crisis. The race to the bottom and disinflationary tendencies have meant also a progressive deterioration in production standards and therefore environmental standards. In the 2015 Paris Climate Agreement, the international community acknowledged, as emphasised by the OECD, "the imperatives of a just transition of the workforce […] in accordance with nationally defined development priorities".[xliii] The transition agenda should expand beyond climate change, so that investment plans and policy frameworks are geared towards addressing other transformations, including digitalisation and demographic changes.

A Just Transition agenda entails significant government spending on digital infrastructure and renewable energy, growth-prone sectors (to secure job creation) through industrial and innovation policies, active labour market and social policies that would give workers the opportunities to keep their jobs or quickly find new employment when needed. The imperative is to ensure quality jobs and sustain living standards. Governments should empower unions to negotiate agreements, which ensure that the gains of productivity-enhancing digital or green processes are equally distributed between workers and investors. Trade unions also call for adequate, universal social protection for all workers during periods of transitions and retirement. Because of the rapid pace of change, unemployment spells will probably be longer than in the past, requiring additional resources. Last but not least, greater access to (strengthened) training and education programs should be facilitated.

Steering governments beyond GDP measurement

GDP is valuable as a tool for economic management, not as a target for policy. According to the OECD, "if we measure the wrong thing, we will do the wrong thing. If we don't measure something, it becomes neglected, as if the problem didn't exist".[xliv] It is becoming commonly accepted that policymakers should move "beyond GDP" as a prime indicator in measuring progress and hence setting the stage for reform. Yet, as of today, the vast majority of economic reports still benchmark the state of the economy against GDP only.

The OECD acknowledges that GDP is ill suited to measure "inequality in income and wealth [which] has today a central role in policy discussions in ways it did not in 2009", but still it heavily relies on this classic indicator of economic progress. New avenues would include (i) moving away from only measuring capital flows, (ii) not solely focusing on ex-post income inequality but also ex-ante inequalities of opportunities and (iii) taking into account the aspects of economic vulnerability and trust. A major problem in the design of the new measures remains the proper evaluation of subjective measures and the data inconsistency in non-OECD countries, which make it difficult to come up with a single indicator that addresses all of these issues.

Piketty et al. have also called for replacing or supplementing GDP with to better account for inequality paired with economic growth. [xlv] Their Distributional National Accounts (DINA) approach highlights inequalities (pre and post-tax) and makes for an overall easier comparison between countries and different groups of people. DINA would help to identify the effect of policies on specific income groups (the authors found that in the US mostly the middle class has profited from government transfers. Further, post tax growth in income for the bottom 50% is mainly driven by transfers in health care expenditure).

By simply using different measurements and benchmarks, we would be able to more effectively tackle inequalities and implement economic policies that address specific problems. Beyond that, inequalities do not solely emerge in wealth and income. An ever-growing inequality in access to education and health (especially in developing economies[xlvi]) is observable and should be accounted for.

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