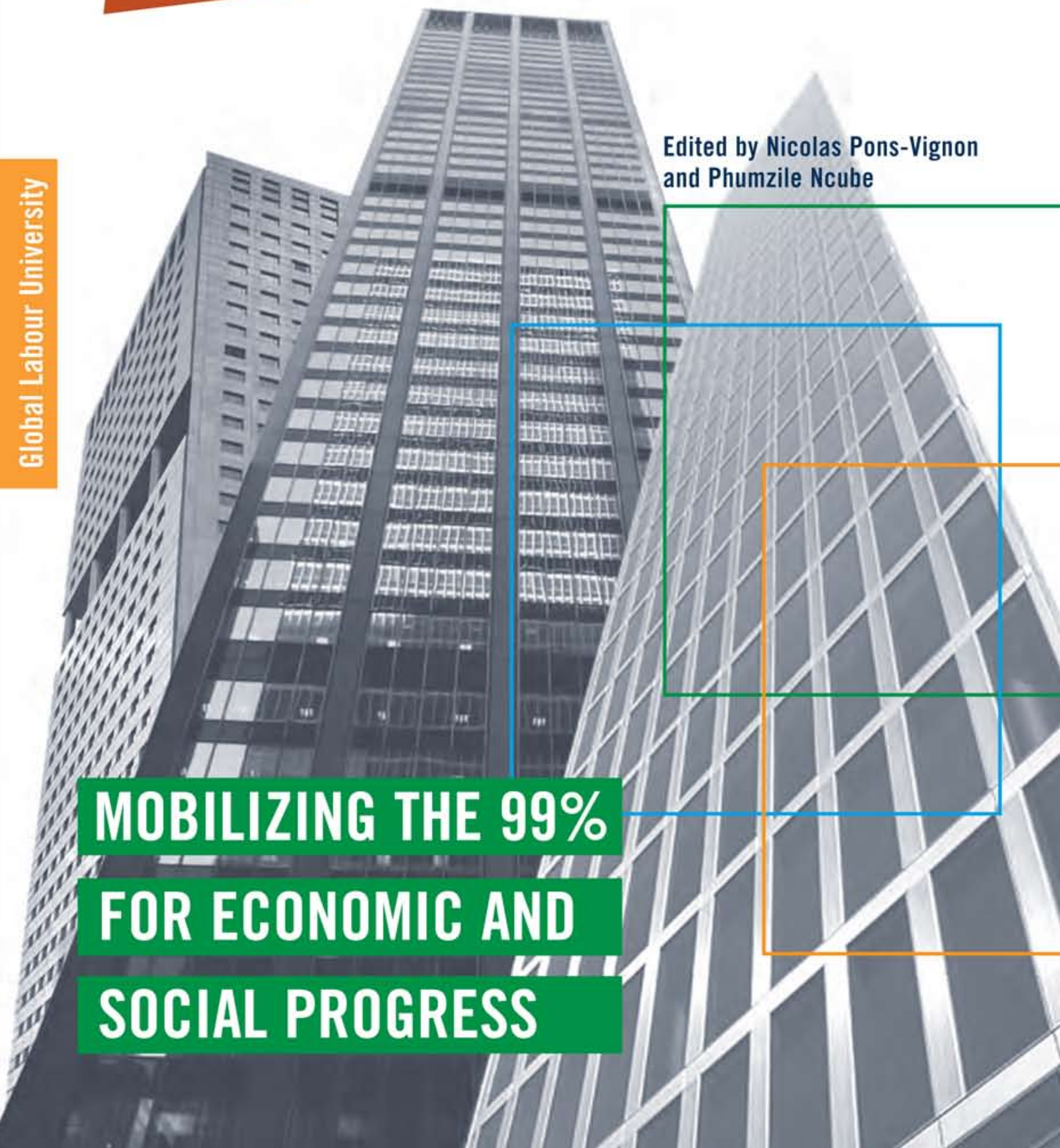
CONFRONTING FINANCE

International Labour Organization

Edited by Nicolas Pons-Vignon
and Phumzile Ncube

Global Labour University



MOBILIZING THE 99% FOR ECONOMIC AND SOCIAL PROGRESS

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Foreword

Zwelinzima Vavi

South Africa offers possibly the most powerful illustration of the relationship between neoliberalism and inequality. After over a century of minority rule which entrenched a profoundly unequal economic and political system, the country was liberated by the struggle of an alliance of progressive forces, in which the trade union movement featured prominently. However, the rapid adoption of a set of neoliberal policies from 1996 (under the ill-named Growth, Employment and Redistribution [GEAR] programme) seriously damaged prospects for promoting a fairer economy and society. As in many other countries, neoliberal policies led to increased inequality, and promoted an unsustainable growth path founded on consumption (especially by the rich and middle classes) and financialization rather than investment, facilitating de-industrialization. Now we in South Africa are trying to move out of this downward spiral.

The only way to address the economic crisis, in South Africa and across the world, is to ensure that economic development benefits the 99 per cent, and is not held hostage to the interests of the 1 per cent. This requires shifting away from the dominant policy paradigm to put public investment and re-industrialization at the centre. Increasing redistribution to working people through rising real wages and social transfers, will boost domestic economies, and reverse the trend for wealth generated by economic growth, to be directed increasingly into the pockets of the few. This is the lesson of Lula's Brazil. Taxation has an important role to play in shifting the growth trajectory, in particular concerning mining super-profits and finance. Regulating finance, in South Africa, and elsewhere, in order to curb its economic and political power is the necessary starting point for any meaningful transformation of the global economy out of its current crisis.

Global economic transformation ought to entail large-scale employment creation, in order to provide the majority of citizens with a decent life, as well as an offensive approach to the quality of jobs created. The argument that those in employment and trade unions are depriving others of opportunities is not only ludicrous, considering the massive skewing of the distribution of surplus in favour of capital in the last 30 years, but also an intolerable excuse for shameless exploitation and further casualization of employment. Decent work is not a luxury, but a right which is necessary for a fairer economic system. In South Africa, the Congress of South African Trade Unions (COSATU) is at the forefront of a struggle against labour brokers, which have been used to undermine a relatively protective legal framework through the spread of indecent work. This has had terrible consequences for the lives of all South Africans, in a context where the unemployed largely rely on worker transfers for their survival.

COSATU supports the work of the Global Labour Column, which nurtures an international debate on progressive responses to the crisis, while offering insightful perspectives on workers' struggles in the North and in the South. This is an important contribution to the building of international solidarity, which will be necessary to confront finance and neoliberalism more broadly. I hope that this volume will be widely read and shared among fellow trade unionists, and will inspire them in their many struggles.

Zwelinzima Vavi
General Secretary
Congress of South African Trade Unions, South Africa

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Preface

Dan Cunniah

The ruling elites are currently pursuing three alternative crisis response strategies:

- authoritarian and protectionist state capitalism (Chinese-led model);
- recovery by regaining competitiveness through austerity and wage restraint (German-led model); and
- "Wall Street Keynesianism" or revitalizing the economy by socializing debts and providing unlimited amounts of cheap money to the financial sector (United States-led model).

Perhaps not surprisingly, none of these models has much to offer for labour. In fact, in all three scenarios, workers are not only footing the bill, but also targeted as a threat to the "success" of the model. This is obvious for dictatorial capitalism, in which workers are directly faced with the repressive state if they raise their voices, but it is also true in the case of Europe's structural adjustment policies, which are based on heavy state interference to break workers' resistance. Turning to the US-led model, it could be conceded that pumping money into the financial sector looks less like a direct attack on labour. However, it is a redistributive exercise of unprecedented scale. Central banks provide unlimited amounts of cheap money to the financial sector, and governments borrow it back at high interest rates. Flooding the banking sector with money is justified by arguing it will translate into real investment. This ignores that a key feature of any crisis is the reluctance of private investors to invest, as they lack confidence that what will be produced can and will be sold.

So far, Wall Street Keynesianism has not triggered real investment, but rather has fuelled further asset bubbles. Not surprisingly, it has not gained the support of the people, who are not convinced that writing huge cheques at their expense to those who ruined our economies is what we need. Feeding the banks with money gained from downsizing the public sector was certainly not Keynes' idea of a crisis response. A small state means big inequality.

Drawing from the experience of the 1930s, the fastest way to generate employment and growth is through a combined approach of massive public investment in infrastructure, education and environmental protection funded by the state/central bank, stabilizing and increasing the incomes of the majority, and strict regulation of financial markets. Improving mass incomes and providing high quality public infrastructure and public services is the way to build inclusive societies.

Turning the tide and making income security, jobs and equity the overriding policy priority will benefit the many, but will limit the wealth and freedom of the powerful few. And so be it: there is no good reason for extreme inequality, there is no good reason not to tax the rich, there is no good reason to maintain the disequilibrium of private wealth and public misery. It is vested interests, not lack of ideas, that stop us from doing what is necessary for a socially fair and environmentally sustainable recovery.

In this volume, the contributors of the Global Labour Column, as labour experts from around the world, discuss central elements of an alternative policy package including:

- a universal Social Protection Floor to safeguard against extreme poverty;
- a financial transactions tax to downsize the financial sector;
- industrial democracy to counter shareholder dictatorship;
- minimum wages and full application of international labour standards to stop workplace exploitation; and
- a redistributive tax and welfare system.

However, those who have taken governments hostage will not give up voluntarily. This is nothing new: it is worth recalling Franklin Roosevelt's famous Madison Square Garden speech of 1936:

> We had to struggle with the old enemies of peace – business and financial monopoly, speculation, reckless banking, class antagonism, sectionalism, war profiteering.
>
> They had begun to consider the Government of the United States as a mere appendage to their own affairs. We know now that government by organized money is just as dangerous as government by organized mob.

A labour-led response to the crisis and to counter "government by organized money" is still in the making. The articles in this volume provide a starting point to catalyse ideas and stoke debate. But without massive mobilization for social justice and inclusive growth, it will be impossible to overcome the vested interests which sustain the status quo. Unions will therefore continue to have a crucial role to play in representing the interests of the many: as the biggest form of organized civil society and occupying a critical position in the production process, unions are the most legitimate voice to speak for and to mobilize working people towards a fairer and more equitable society.

Dan Cunniah
Director, Bureau for Workers' Activities, ILO

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The essays in this volume first appeared in the Global Labour Column (GLC) which is edited by Nicolas Pons-Vignon and Phumzile Ncube at the Corporate Strategy and Industrial Development (CSID) research programme at the University of the Witwatersrand, South Africa. The editors have been assisted by reviewers from the university: Edward Webster, Michelle Williams, Jacklyn Cock and Lucien Van Der Walt, as well as Frank Hoffer and Claire Hobden from the ILO's Bureau for Workers' Activities and Till van Treeck from the Hans Böckler Foundation.

Frank Hoffer, the initiator of the Global Labour University, of which the GLC is one initiative, has been instrumental to the success of the Column and his involvement is gratefully acknowledged. The hard work of Laura Brown, who sub-edits all articles, and Harald Kroeck, who acts as the Column's webmaster, are essential to ensuring quality.

Charlotte Beauchamp, Chris Edgar and Vivien Stone have overseen the production process for ILO Publications and their inputs are much appreciated. Thanks are also given to Beatrice and Clyde Reynolds of Magheross Graphics, who designed and laid out the text, to Werner Arnold who designed the cover and to the translators who produced the French and Spanish editions (Thierry Troude and Gabriela Coll Vigo respectively).

Finally, but very importantly, thanks are extended to all the contributors to and readers of the Global Labour Column. Their commitment is evidence to the determination of labour, as a central part of the 99 per cent, to offer constructive responses to the economic crisis and challenge the hegemony of global finance.

Introduction: What Europe can learn from the South

Nicolas Pons-Vignon

After having caused a massive increase in inequality throughout the world, which led to the build-up of politely called "imbalances" and which fireballed into a financial, then economic, crisis, neoliberal policies are threatening to push many economies into a precipice with unknown political and social consequences. Yet, the European countries at the heart of this turmoil are showing little sign of resistance; the growing social movements opposing bailout and austerity have thus far failed to influence dominant parties and national policies. Instead, it appears that the very same policy mix of austerity and privatization which shattered African, Latin American and ex-communist countries in the 1980s and '90s is being inflicted on Europe. The irony lies in the fact that most economists now agree that these policies have indeed had disastrous consequences. The belief that what led to a growth collapse and social disaster elsewhere will have positive consequences in Europe is an illusion which is sustained by the mainstream media and by powerful interest groups. Lambert (2012) thus highlights the French media's predilection for consulting a coterie of economists who are closely linked to (or rather remunerated by) financial interests, and who invariably play down the responsibility of banks in the crisis and the usefulness of taxing finance rather than, say, ordinary citizens through increased value added taxes. In Italy, the "structural reforms" supposedly aimed at boosting growth focus on accelerating flexibilization of the labour market, in a context already marked by very high levels of precariousness.

While Keynesians are nostalgic of the decisive reaction to the 1930s' crisis by US President Franklin D. Roosevelt, who leveraged state intervention to support employment and expand the welfare state, few such visionaries seem to be emerging today. Most traditional left-wing parties are conspicuously shying away from any meaningful engagement with the relationship between neoliberal policies, finance and the crisis, and implicitly accept the TINA (there is no alternative) position advocated by the aforementioned bank-friendly economists. The reality of the balance of power has been brutally exposed by the imposition (without elections) in Italy and Greece of new governments which were willing to implement the very same policies, in spite of widespread popular opposition. The recent decision by the coalition government in the UK to cut taxes for multinational corporations further reveals, as a journalist put it, that Britain's tax rules are "now written for and by multinationals".[1]

The explanation for this remarkably subdued behaviour is indeed that policy seems to be driven by higher interests than the well-being of the majority of citizens. If the balance of forces in Europe and North America is firmly tilted in favour of neoliberalism and its main driver, finance,[2] there is no shortage of popular opposition. In Europe, anger is mounting at the management of the crisis and at the undemocratic changes of government which have been staged in Mediterranean Europe, while in the United States trade unions and civil society are mobilizing again after a long period of passivity (see Feingold, and Toff and McCallum, in this volume). Among would-be EU Member States, there is growing scepticism linked to the realization that integration involves a subjection of national policies to a neoliberal order. Confronting the power of finance is more urgent than ever, and will require further mobilization and alliance of progressive forces, with trade unions at the forefront (on the difficulty of organizing unions at the European level, see Pedrina in this volume).

Four pillars of contestation – academia, ideology, policy and politics – were discussed in last year's introduction[3] and, at least for two of them, encouraging progress has been made. The arguments against neoliberal policies are increasingly articulated around alternative policy programmes, many of which are actively supported by trade unions (see Kellermann and Ségol in this volume). Academic contestation is also on the rise, with national and international heterodox economics associations asserting themselves and benefiting from the growing recognition of the impasse in which neoclassical economics has ended.[4] But ideology and, above all, politics are proving extremely resilient. Appalling "culturalist" accounts of the Greek debt crises have been widely repeated, legitimizing a hardline neoliberal approach toward the workers and unemployed of this country (if you are in debt, you must have been irresponsible and ought to pay for it).

It is impossible to understand the resilience of neoliberalism – namely the resilience of policies which support the interests of finance capital at the expense of workers – without understanding the growing role and influence of finance since the 1980s. Of course, the centrality of financial interests in driving policies which undermine workers has been well documented historically, perhaps most eloquently by Polanyi in the first chapter of *The great transformation* (1944). But financialization, which "summarizes a broad range of phenomena including the globalization of financial markets, the shareholder value revolution and the rise of incomes from financial investment" (Stockhammer, 2004, p. 720), has profoundly affected capitalism since the 1970s. This is particularly evident in the way in which non-financial companies have started to operate like financial institutions, seeing production and employment as mere fixed costs which ought to be minimized or even eliminated. By failing to acknowledge any problem with finance, and sticking to the now-ailing "efficient markets hypothesis", neoclassical economics has confirmed its inability to account for economic realities convincingly.[5] If not masochism, what can explain the insistence of Western governments to press ahead with policies whose consequences will be harmful, and whose theoretical foundation has been discredited? Most crucially – and painfully – how can we understand the absence of a serious left-wing alternative in Europe and the United States?

To find answers, and maybe solutions, progressive movements across the world have much to gain by taking seriously what is happening in the South. This is not to suggest that a perfect model can be found, or that countries outside of Europe and North America have not fallen prey to financialization. On the contrary – countries in the South have often been the main victims of the damages which financialized capitalism can inflict. But many of them have developed innovative ways to respond to it, while Europe seems to be at a loss. One of the world's most successful progressive parties, Brazil's Partido dos Trabalhadores (PT – Workers' Party), has put it in unambiguous terms: "the left in European countries, which has had such an influence on the left worldwide since the nineteenth century, has not managed to produce an adequate response to the crisis and appears to be capitulating to the forces of neoliberalism" (quoted in Halimi, 2011).

I identify four main areas where countries and progressive movements of the South are ahead of their counterparts in the North: debt audits, industrial policy, wage and social policies, and labour mobilizations. The broader context of these four elements is the recognition that the economic system is deeply unfair, with pockets of wealth (the 1 per cent) subsidized through exploitation and deprivation. In other words, the marginal adjustments proposed by many policy-makers in the North will not be enough to achieve change that could benefit the 99 per cent.

Debt audits originate in Ecuador, where they have been successfully used by President Correa's Government to expose the origins of the country's debt. This made it possible to highlight that much of it was odious debt, which was then repudiated. Despite initial fears and agitation by financial interests that this would lead to economic collapse and make accessing finance impossible, the process has in fact been extremely positive. It has inspired many progressive movements in Europe, from Ireland to Greece, who are pushing for it to be emulated. Debt audits, which have been called for by many progressive development economists to expose what lies behind Africa's debt (see Boyce and Ndikumana in this volume), are a critical way to unpack the legitimacy of debt and bring finance's power to (democratic) account. That a small Latin American country had the courage to do it should serve as an inspiration to all.

Industrial policy has been at the heart of the successful development of several countries in the South, in particular in East Asia, a phenomenon which the late Alice Amsden referred to as the rise of "the rest" (2001). The realization that industrialization is key to development and that it can generate sustainable growth has remained central to policy-making in a few highly successful countries such as China and Brazil. In the meantime, following the now discredited Washington Consensus, others were de-industrializing, in the North as well as in the South, under the pressure of financial interests for whom the long-term and uncertain prospects of productive investment are off-putting. Industrial policy is now making a conspicuous comeback on the agenda in many countries.[6] Developing countries which have successfully pursued industrial policy have all managed to curtail the power of finance to ensure it serves productive investment. China is a case in point, which shows that financialization and the associated full liberalization of bank activities are neither inevitable nor useful for development. Constraining financial institutions to focus on productive or socially useful investment is not an intolerable curtailment of the freedom to invest; it is probably what all countries should do.

While calls for a wage-led recovery are being conspicuously ignored by most policy-makers, Brazil is demonstrating that a policy supporting wages can support economic growth and result in a massive reduction in poverty. Calls for decent job creation rather than support for exploitative micro-enterprises as a means of reducing poverty are mounting across developing countries, signalling a delusion with microfinance and with neoliberal policies more generally (see Bateman in this volume). This should incite trade unions across the world to scale up their efforts at organizing casual workers and building solidarity: confronting finance also entails asserting that work is not a cost, because labour is not a commodity, and that unions are not a distortion of the labour market but can articulate the voice of the majority. In a similar vein, the narrow framework in which social policies have been conceived under the influence of neoliberalism has to be contested vigorously. This can only start with a struggle to decommodify the public services which have been transformed into profitable operations for private enterprises, from health to education, food and medical drugs. A growing body of research points to the close relationship between financialization (and commodity derivatives' trading in particular) and food price inflation, which is hitting poor people across the world (Newman, 2009). Here again, numerous initiatives by developing countries are inspiring, starting with the contestation of the international intellectual property rights regime for pharmaceuticals by countries such as India and South Africa. This has allowed them to produce or buy essential drugs (for HIV/AIDS in particular) at a price compatible with the massive roll-out needed to avoid thousands of deaths. Further, radical attempts to provide the poor with support are either being tested or debated across the South, with the Indian employment guarantee scheme and the proposal for a universal income (see Marais in this volume) at the fore. These are credible alternatives which would address the social and economic consequences of neoliberalism and empower progressive forces.

Last, and most importantly, it is important to acknowledge the vital contribution to progressive change which unions in the South have made in the past 30 years. In South Africa, unions mobilized successfully against apartheid, while their Republic of Korea counterparts played a decisive role in ending General Park's dictatorial regime. In both countries, as well as in Brazil, neoliberalism has weakened the progressive project of trade unions – but it is far from having defeated it. As Webster points out in this volume, "A new labour paradigm has emerged in the Global South that does not see decent work as an obstacle or an add-on to development, but is instead attempting to integrate decent work into an alternative developmental path". Indeed, organized labour is at the heart of many of the promising directions discussed above – just as European labour has been at the forefront of social progress throughout much of the 20th century. In many countries of the South, trade union members have developed a radical political perspective which has great potential for challenging the status quo and advancing progressive alternatives. It is perhaps from this energy that a political confrontation with finance can find the strength needed to succeed.

Whether the debasement of the left in Europe and North America is irreversible or not, looking South for inspiration looks like a better idea every day for workers and trade unions. This will require ending a habit of considering that knowledge should flow south, towards less "developed" partners, a bias also found in many developing countries where former colonial powers are sometimes seen as idealized points of reference. Whether it is in relation to worker mobilization or social and economic policies, there are many experiences coming from the South which can provide inspiration to those opposing the power of finance. Successful policies and lively debates which explore and experiment with progressive alternatives abound, and the Global Labour Column sets itself the ambitious target to document them and support the labour movement in defending the interests of the 99 per cent.

Notes

[1] http://www.guardian.co.uk/commentisfree/2012/mar/19/britains-tax-rules-written-by-multinationals

[2] On the relationship between neoliberalism and financialization, see Fine (2011).

[3] N. Pons-Vignon: "Introduction: Bringing politics back in", *There is an alternative: Economic policies and labour strategies beyond the mainstream* (Geneva, ILO, 2011).

[4] See the World Economics Association (http://www.worldeconomicsassociation.org/); the International Development Economics Associates (IDEAs) network (http://www.networkideas.org/); real-world economics review (http://www.paecon.net/PAEReview/); and the Heterodox Economics Newsletter (http://www.heterodoxnews.com/); as well as the International Initiative for Promoting Political Economy (IIPPE) (http://www.iippe.org/).

[5] Perhaps the best illustration of this is the astonishing exchange between the British Queen and a group of economists whom she had called to account about their failure to predict the crisis (http://www.ft.com/intl/cms/3e3b6ca8-7a08-11de-b86f-00144feabdc0.pdf).

[6] Recent World Bank research has departed radically from previous positions to articulate cautious support for industrial policy, associated with its chief economist Justin Lin and his "new structural economics" (2012). For a critical discussion of the World Bank's approach to industrial policy, both old and new, see Singh (2011).

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PART I

Making sense of Europe's turmoil

The crisis: The response of European trade unions

Bernadette Ségol

The unanimous political response to the crisis across Europe today is that of austerity and budgetary discipline. Cutting pay and social welfare, attacking bargaining mechanisms and making employment contracts ultra-flexible: that is the current paradigm, the Berlin/Brussels consensus, offered as the only way forward.

This solution is not working and will not work. It stifles growth and blocks the way to job creation. We can no longer ignore its disastrous social consequences and the rise of nationalism in many European countries bringing into question our essential values based on solidarity.

We need to change the narrative

Official voices are increasingly being raised against austerity, but mainly from outside Europe. The Organisation for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO) say that austerity without growth is a dangerous dead-end. International Monetary Fund (IMF) Managing Director Christine Lagarde has expressed concerns on behalf of the IMF. Even credit rating agencies – self-serving oligopolies that they are – have joined in the chorus.

But the message isn't getting through to the finance ministers. While lip service is being paid in the European Council to the need to foster growth and employment, concrete proposals commensurate with the disaster we are facing are missing, in stark contrast to the sharp minutiae of the fiscal plans before us. The European Trade Union Confederation (ETUC) is for sound budgets. But the fiscal compact calls for a balancing social contract.

Concrete proposals commensurate with the disaster […] are missing

More austerity as the only response to austerity

Europe has entered a recession. The latest Eurostat figures on employment in the Eurozone show that unemployment is hitting a new record. The average unemployment rate is 10.4 per cent in the Eurozone, meaning that 16.5 million people are out of work. This is the highest unemployment rate since June 1998. Youth unemployment is endemic; it affects nearly half of young Spanish people. Poverty is increasing and 8 per cent of Europe's active population now faces extreme poverty.

In this dire situation, the response offered by European leaders is to tighten the screws. On 30 January 2012, a summit finalized a new international treaty setting in stone budgetary discipline, backed by sanctions. The ETUC is opposed to this treaty, which does not respond to mounting problems with unemployment and job insecurity. The treaty only addresses these challenges in accounting terms, without any political vision. We know, of course, that we need to return to a sustainable budgetary balance. But we would be fooling ourselves if we thought that budgets will be balanced and that confidence will return as a result of these austerity measures.

Moreover, the process followed was not democratic. The European Parliament was unable to play an active role. Europe's trade unions are advocating a social and democratic Europe, not the budgetary, financial and technocratic Europe that has been presented.

The recession will make an already poor social situation even worse. Inequality is growing. Social movements are emerging to protest against injustice and insecurity. Social justice must be the top priority on all political agendas at both national and European level. If European leaders drop this priority to focus on austerity measures alone, particularly in countries that are already in difficulty, we should not be surprised if poverty levels increase and if inequality leads to social and political instability.

A model of European economic governance in the neoliberal mould

The existing framework for European economic governance consists of the European Semester, the Euro Plus Pact and the "six pack". Thanks in large part to the efforts of European trade unions and their members, the "six pack" that came into force last year includes a clause stipulating that national systems of collective bargaining must be fully respected. A similar notion appears in passing in the international treaty, but whether it is just is open to doubt.

The reality is that the troika – composed of the European Union (EU), the European Central Bank (ECB) and the IMF – has also imposed its rules of economic governance on Greece, Ireland and Portugal as a condition for rescuing them. This type of economic governance relies centrally on attacks on labour relations and wages set by collective agreements, devaluing pension provisions, introducing greater flexibility into the labour market, weakening social protection and the right to strike, and privatizing public services. We have also seen the ECB intervening in the Italian government in an unacceptable way, insisting on the privatization and liberalization of public services, a change in the system for setting pay, the decentralization of collective bargaining, changes in rules on recruitment and dismissal and an increase in the retirement age.

These diktats are usually set down in secret letters drafted in mysterious backrooms. Democracy, again, is the loser.

The crisis is also used as a pretext to tell us that a drop in pay would free up competitiveness and boost the economy, leading to a win–win situation. However, the ETUC believes that wages are a driver of economic growth rather than a barrier to it. If the rules of economic governance focus on wages and working conditions as factors for competitive adjustment, countries will compete in terms of wages, working conditions and, more broadly, social spending. And workers again shoulder the burden.

The European social model is under attack

The European social model safeguards social cohesion. It was developed as part of a social understanding that emerged in Western European nations out of the ashes of the Second World War and covers public services, social protection and collective bargaining. But now neoliberal forces are using the crisis to bring the social model into question. For them, not only do social protection and decent wages hinder economic recovery, but the very foundations of a model of cohesion and solidarity are anathema. Some, particularly in Central and Eastern Europe, espouse harsh social Darwinism, conveniently forgetting that the Scandinavian countries that have invested in a strong welfare state are also among the most competitive.

Undermining social cohesion means weakening political stability too. Social exclusion and uncertain futures pave the way for populists who advocate national self-sufficiency as a cure for all ills. The rise of the extreme right in Europe should give us cause for concern. European leaders and all defenders of deregulation must take this phenomenon into account because some measures, such as austerity, feed it.

There are alternatives

The European Union needs an economic union with a strong social dimension. What we need is a real recovery plan for employment and lasting growth. We want Europe to sign a social contract, not just a fiscal pact.

We want Europe to sign a social contract, not just a fiscal pact

- Europe needs investments for a sustainable, green economy. This should include investments in the transport and energy sectors.
- Europe needs an industrial policy that invests in leading-edge sectors and the sectors of the future.
- The ECB must have a clearer mandate. It should aim to promote price stability, full employment and the convergence of Member States' financial conditions. The ECB should be required to act as a "lender and buyer of last resort" for sovereign debt, instead of merely having the opportunity to do so.
- Debt should be partially pooled through eurobonds.
- There should be a wage safeguard clause, imposing full respect for the autonomy of social partners to bargain collectively and preventing the fiscal pact from interfering with wages, collective bargaining systems, collective action and unionization.
- We need provisions to safeguard growth: the exclusion of public investments that support potential growth from the "balanced budget rule"; protection of the public revenue sector through a financial transactions tax, by committing to tackle tax evasion, fraud and competition; and a structural role for European social dialogue to avoid a blind implementation of rigid economic rules that could harm the economy.
- A social progress protocol must be attached to the European treaties to guarantee the respect of fundamental social rights.

The ETUC is advocating a "social contract" for Europe. Such a contract would prioritize investments in support of a sustainable economy, quality jobs and social justice, whilst combating inequality.

Faced with the steamroller of economic governance in place, the European trade union movement is taking action to oppose harmful policies and work together to find the best solutions.

The ETUC called for a European day of action on 29 February 2012 to say "enough is enough". All over Europe, unions are asking for employment and social justice to be prioritized.

Bernadette Ségol is the Secretary General of the European Trade Union Confederation. Previously she was the head of UNI Europa, the European trade union federation for services and communication which represents 7 million workers and 330 affiliated trade unions. One of her main focuses is wage equality in Europe.

The euro crisis and the European trade union movement

Vasco Pedrina

After successfully bailing out banks and adopting a first wave of economic recovery measures, the authorities of the European Union and its Member States began to impose draconian, antisocial austerity plans from the beginning of spring 2010. These plans stem from an increasingly coordinated policy at the EU level, which is entering a new phase with the Euro Plus Pact and the new fiscal compact. Dressed up as part of a fight against "macroeconomic imbalances", new mechanisms have been put in place. These will provide EU authorities with the means to step up the pressure for general social dismantling. Concretely, this amounts to a "wages straitjacket" that calls into question the autonomy of social partners (one of the pillars of the European social model), raises the retirement age across European countries and introduces legislation to curb national debt. This policy is not only having dramatic social repercussions. It is also heading up an economic blind alley that is putting the euro at risk.

At its congress in Athens in May 2011, the European Trade Union Confederation reaffirmed its opposition to the currently prevailing neoliberal economic policies and once again demanded a change of course. The only conceivable way of pulling the Eurozone out of crisis is a combination of measures aimed both at boosting economic growth and at a gradual reduction of debt levels and macroeconomic imbalances. The ETUC is calling for a "New Social and Green Deal" consisting of a large investment plan, the issuing of eurobonds, a new mandate for the European Central Bank (that is, an obligation to act as "a lender and buyer of last resort") and a low-carbon industrial policy underpinned by fiscal reforms, which should include a tax on financial transactions. As far as Greece is concerned, it is now clear that it will not be able to break out of the present vicious circle without a really substantial recovery plan financed by the EU within the framework of a sort of Marshall Plan for countries in distress. The ETUC is also demanding a thorough overhaul of the euro pact and the fiscal compact – particularly the part on wage and retirement measures.

Mobilizing against social suffocation

To back this alternative economic programme, the ETUC has held five European action days in the past two years since 2010, the last one on 29 February 2012. Demonstrations and strikes spread across many European countries, but they did not build enough pressure to halt the neoliberal steamroller. Back in the days of the "social democratic compromise" under the presidency of Jacques Delors, protests of that size would have been seen as a good reason for getting down to negotiations. Today, that is no longer so. Neither the EU authorities nor those of the Member States were swayed by the protest action. True, the European trade union movement has, in the meantime, managed to get the most reactionary legal provisions expunged from the euro pact, but its antisocial thrust remains, as do the national austerity plans. At the same time, some pillars of the European social model are under relentless attack. Symptomatic of this is the EU political authorities' refusal to correct the precedent created by the European Court of Justice (ECJ) in the Laval, Viking, Rüffert and Luxembourg cases of 2007–08. Through these rulings, the ECJ called into question the basic principles of social Europe, such as the precedence of basic social rights over the economic freedoms of the internal market, the principle of "equal pay for equal work in the same place", the right to strike in order to combat "wage dumping" and the autonomy of the social partners.

European trade unionism at a crossroads

"Social Europe" is under pressure. Clearly, there will be no change of course unless pressure from strikes and political action coordinated at the European level builds up on a scale quite different to anything that has been achieved up to now. And yet, in the wake of the crisis, unions are falling back to defensive struggle positions within national frameworks. Evidently, the unions have put too little energy into European mobilization. Even 80,000 people on the march in Brussels were not enough to have a big impact.

Unions are falling back to defensive struggle positions within national frameworks

The time has come to re-examine our strategy if we do not want to look on helplessly as the European trade union movement slides into irredeemable decline. The current debate on this issue within the political left and the trade union movement is bringing forth two currents of thought. One of them advocates a strategy of "renationalizing policy". Those supporting this "fallback strategy" argue that, as the EU is on the road to neoliberal damnation, the only realistic response would be to set up resistance networks to defend the social state within the national framework. The left-wing supporters of this position are, de facto, putting themselves in the same camp as the conservatives within the trade union movement who, like quite a lot of Nordic confederations, believe that the "lone road" is the best way of defending their "Nordic social model", even though that model is more and more threatened by the EU.

The other school of thought advocates an "offensive strategy" of Europeanizing social struggles. Their argument is that the only positive alternative is a quantitative and qualitative leap forward in joint political action and mobilization across Europe. But the days in which such a leap might still be made successfully are numbered. There is a serious risk that the euro and fiscal pacts, together with the whole series of austerity plans, will cause such an increase in the imbalances between and within countries that the social and political tensions will become unbearable, due to the rise of populist forces. The already growing tensions among trade union confederations in Europe and among confederations within individual countries (such as Italy) give some idea of where such developments could lead, namely to a catastrophic paralysis of the labour movement.

Levers for Europeanizing social struggles

The strikes and mobilizations over the past two years in various European countries have led to the emergence of new demands, new forms of action and new alliances from which useful lessons can be drawn for the Europeanization of trade union resistance networks. At the same time, other routes may lead to the qualitative leap described above. At the ETUC Congress in 2011, two proposals were discussed for campaigns with the potential to launch a real, coordinated counter-offensive.

One of these proposals concerns the response to the currently prevailing neoliberal economic policies. It is based on the alternative ETUC economic programme mentioned above, on reinforced coordination of bargaining policy and on an offensive for a European minimum wage policy and against the precarization of jobs. Workplace strike capacities, in support of European demands, need to be strengthened in order to achieve these objectives. Granted, the ETUC Congress did adopt a proposal from the Spanish confederations (Comisiones Obreras – CCOO – and Unión General de Trabajadores – UGT), calling for serious examination of the feasibility of coordinated strikes or a European general strike, but it did so without conviction. Clearly, the political will is still lacking, but this state of mind could change under the pressure of increasing suffering.

The second proposal, entitled "Equal Pay, Equal Rights", aims to give new impetus to the struggle for workers' rights, which are under attack almost everywhere, as well as the struggle against "wage dumping". To support this campaign, the Swiss Federation of Trade Unions has proposed the launching of a European Citizens' Initiative (ECI) entitled "For a Europe without wage dumping – Priority for basic social rights over economic freedoms". Under the new Lisbon Treaty, citizens can petition EU authorities on new policies and legislations with one million signatures. An ECI of this kind would be aimed at giving the EU a mandate for the legislative measures needed to ensure that precedence for basic social rights over economic freedoms becomes generally applicable throughout the European Union.

Launching such an ECI would enable broad awareness-raising (and mobilization) in workplaces and among the union rank and file right across Europe – something that has not been possible so far. Other social movements and political forces that share our concerns about the future of social Europe could be associated with the ECI. The ETUC Congress accepted this second proposal of a campaign. But it did not give a clear green light to its decisive lever, namely the ECI. The reservations come from countries such as France, Italy and the UK, whose union confederations say they have no tradition of collecting signatures for this kind of instrument. They are underestimating the potential of a citizens' initiative as an instrument of decentralized awareness-raising and political pressure for a common objective throughout Europe.

The ETUC Congress could have sent out a strong signal for a large-scale political and trade union European counter-offensive. The lack of energy to go down that road is due to the way that unions in several countries have been hit and weakened. This is compounded by the non-simultaneous nature of the crisis and very diverse national union traditions. Nonetheless, it may well be that a response on a scale to match the current challenges will become possible once the pressure of suffering rises even further, and people will be forced to realize that a social and political turning-point can only be reached with strengthened trade union policy coordination beyond national borders. This will require an alliance with all interested social movements and political forces. The future of social Europe and of the European integration process is at stake.

A […] turning-point can only be reached with strengthened trade union policy coordination

Vasco Pedrina is the National Secretary of the Swiss inter-professional trade union Unia and Vice-President of the Building and Wood Workers' International (BWI). He represents the Swiss Federation of Trade Unions (SGB/USS) on the ETUC Executive Committee.

The EU "austerity" deal won't work – Irish workers face a grim future

Frank Connolly

The EU summit on Friday 9 December 2011, during which 26 out of 27 member countries agreed on a new intergovernmental treaty including a "fiscal compact" to enforce budgetary discipline on states which breach the 3 per cent deficit (of GDP) limit, will not provide the growth strategy that is necessary to help deeply indebted Eurozone countries out of recession.

The fiscal compact proposals will not solve the problems of the euro for the peoples of Europe but will instead "institutionalize austerity" by enforcing an annual structural deficit that does not exceed 0.5 per cent of GDP. A strategy for growth and for a rapid job generating recovery is completely missing. Without such a strategy there is no relief in sight for the stressed countries.

Nor did this summit, dominated by German and French political and financial considerations, include any suggestion of debt restructuring, euro bonds or any kind of fiscal transfer mechanism to direct resources from prosperous regions to those which are struggling.

The key fact resulting from this European Council is that countries which are burdened by unsustainable debt will have even less prospect for growth. This is certainly the case for Ireland where the European "fiscal compact" will greatly restrict the policy space of future Irish governments. This is perhaps the greatest threat to recovery for an economy that is reeling from the weight of the 2010 European Union/European Central Bank/International Monetary Fund high interest loan facility of €63 billion and an enormous sovereign debt burden following the recapitalization of the main banks.

The proposed introduction of automatic fines for governments that breach the 3 per cent deficit limit will indeed place substantial difficulties on countries such as Ireland which require economic growth to escape from their current debt burden.

Fiscal pact worst solution for Ireland

For the Irish economy this fiscal pact or German designed "austerity" package, as it is now being described by opposition parties, could not have arrived at a worse moment as the unemployment rate exceeded 14.4 per cent in the third quarter of 2011, and with the long-term jobless accounting for more than 56 per cent of the total out of work. In the same period the Irish economy contracted at its fastest rate in two years.

With the state's finances totally dependent on European Central Bank funds and a budget in early December which took a further €3.8 billion out of the economy through public service cuts, reductions in capital spending and mainly indirect taxes, the outlook for any recovery in the short term looks gloomy and official agencies have downgraded the growth projection for 2012 to less than 1 per cent. The faltering European, US and UK economies are of particular concern for a country that is largely reliant on an export-led recovery.

For the Irish trade union and progressive political movement the outlook is stark. On the dark horizon is the working out of what appears to be the strategy of European, mainly German, finance capital to achieve the impossible – growth through austerity. In any case where it has been claimed to have worked it has always been accompanied by a loose monetary policy by the relevant central bank. But, so far, the European Central Bank has been precluded from such an intervention.

For the Irish trade union and progressive political movement the outlook is stark

Instead, the recipe is to slash pensions, dismantle people's rights at work through what are euphemistically called "labour market reforms" and sell off lucrative state assets to corporate vultures at bargain basement prices. The policy is to jettison what remains of the gains made by working people across Europe in the context of the post-war settlement. The objective is, apparently, to ditch as many of the achievements of so-called "social Europe" as possible so that European capital can participate more effectively in the global race to the bottom.

Unsurprisingly, the austerity-led strategies are being played out at a time when centre right, and overtly right-wing, parties dominate the European political map. The possibility, however slim, of a return of socialist or social democrat governments in elections this year and next in France, Germany and indeed the survival of Barack Obama for a second term in the United States, offers some hope for the restoration of sanity to global fiscal and economic policies.

It may be too little too late, at least in the case of Ireland, where already €20.6 billion has been taken out of the economy over the past five years and, as a consequence of the EU/ECB/IMF loan, a projected €12.4 billion will be cut over the next four. Since 2009, the equivalent of 13.4 per cent of GDP has been taken out of the economy with a further 8 per cent to be extracted by 2015.

This "adjustment" has involved unprecedented cuts to the pay and pensions of workers in the public service and a severe deterioration of the services on which those on social welfare – the sick, the elderly and the vulnerable – depend. It has meant that spending on vital capital projects which could create jobs for the tens of thousands of construction and other workers who have lost their jobs since the collapse in 2008 has been sharply reduced. While export-based private industries have sustained employment and wages, the international outlook is far from favourable while the domestic manufacturing, retail and other potentially wealth producing sectors are flat and falling.

Irish debt burden unsustainable

Overshadowing all of this is the massive sovereign debt burden which is expected to peak close to 120 per cent of GDP in 2013 (not including the enormous bank liabilities). The total banking (contingent and actual) and sovereign liabilities of the state are close to a stratospheric 235 per cent of GDP.

It is evident that the Irish state cannot reduce this to any acceptable level without an EU supported write-off through the issuance of ECB guaranteed bonds and a series of other agreed measures. It is unacceptable to most Irish citizens that the state is forced to pay annual promissory notes on the debts of defunct toxic banks encouraged to borrow at low interest during the sustained and artificial property bubble, with the encouragement of French, German, UK and other finance houses now seeking the return of their money with heavy interest.

It is unacceptable to most Irish citizens that the state is forced to pay annual promissory notes on the debts of defunct toxic banks

It is accepted that domestic blame lies with errant and incompetent political leaders who encouraged the evolution of "blind eye" regulation across the banking and financial sectors. In late 2010, a hundred thousand Irish workers took to the streets of Dublin in the week that the EU/ECB/IMF troika arrived in town to take control of their country's economic destiny. The anger and despair, while not mirroring the street violence in Greece, was palpable and resulted in the routing, in the February 2011 general election, of the centre right Fianna Fáil party which dominated three successive centre right governments since 1997.

In a dramatic and historic shift, some 40 per cent of voters supported the broadly left-wing parties, which represented a doubling of their traditional vote in the country. The Labour Party, the largest left-wing party, entered a coalition government with Fine Gael (FG), which has now replaced its long-time adversary, the now seriously diminished Fianna Fáil, as the main party of the right. Government policy reflects the roughly 2:1 power balance between Fine Gael and Labour which in the recent December budget managed to ensure a 56:44 ratio of public spending cuts to taxation, compared with the 75:25 envisaged in the FG manifesto.

Awesome challenge for the left

Major internal government battles continue on issues relating to the mechanisms that protect low-paid workers, on the right to collective bargaining which is yet to be enshrined in Irish law and to which the Labour Party is committed and on the future of publicly funded community employment and other welfare schemes which provide assistance and incomes to the most vulnerable and their communities.

The health and education budgets are also under strain while an agreement that protects the pay and jobs of public sector workers in return for deep rationalization and cost savings across the administration of government-provided services is under pressure from employer groups and right-wing forces, encouraged by a compliant media, seeking to make those least responsible take the burden of the economic and financial collapse. Meanwhile, no coherent or serious effort is made to tax the considerable number of people in Irish society who have accumulated wealth at home and abroad. The gap between those at the top and those at the bottom continues to widen with reports calculating that 5 per cent of the population controls some 48 per cent of the country's asset wealth. To illustrate the scale of inequality it is worth noting that Ireland has the second lowest tax take as share of GDP across the 27 EU nations in 2009 and was ranked 27th out of 34 across the OECD in that same year (source: Eurostat and OECD).

Modest proposals made by Services Industrial Professional and Technical Union (SIPTU) to incentivize well-endowed Irish pension funds to raise approximately €4 billion – about 5 per cent of current pension fund balance sheets – for investment have yet to be adopted, although they are under consideration by government. Together with €2 billion from the residue of the National Pension Reserve Fund this would generate tens of thousands of jobs providing the route to growth.

Clearly, the challenge facing the trade union and progressive movement in Ireland, and globally, is truly awesome. If the EU insists on imposing even greater austerity without any prescription for recovery the Irish people may well resist any invitation to alter existing treaties through referendum change. A new, fairer way forward must be found.

Frank Connolly is Head of Communications with SIPTU (Services Industrial Professional and Technical Union). SIPTU is Ireland's largest trade union with almost 200,000 members from a unionized workforce of 800,000 and a total labour force of 1.8 million people.

Summer days on Utøya

Dan Gallin

I shall never forget the summer days I spent in 1955 on Utøya, the small island near Oslo that the Norwegian trade unions had given to the Labour Youth League as a study and leisure centre.

I had arrived in Europe in March 1953, back from the United States where, as a student, I had discovered socialism in the shape of a Trotskyist dissidence. The brilliant explanation of the world, the heroic and tragic story of the "Old Man" and his movement, had taken hold of my imagination and my emotions. So much so that I drew the attention of the authorities who gave me one month to leave the country.

So there we were, my companion and I, in Europe and needing to find our bearings. She was a member of the same group. By the summer of 1955, we were ready to discover Scandinavia, the bastion of a social democracy that we viewed with suspicion.

In Oslo, we found the Labour Youth League in the phone book. We turned up unannounced at the office of the man in charge, who was the General Secretary, and told him we were members of the American Socialist Youth League and we were looking for Norwegian socialists to discuss socialism with. The Norwegian comrade looked at us for what seemed quite a while and then said, "You've timed it nicely. Our summer course has just started. Later on, we can take you over there. You can spend a week with us. It's on Utøya, a little island near Oslo. You'll see."

On Utøya, there was a central building for the logistics (meals, showers, course rooms) and the participants were living in tents pitched all over the island, but mainly in a meadow in front of the building. We were assigned a tent, but we spent most of our time with the young Norwegians. I spent a whole night discussing with Reiulf Steen, who was later to become the Minister of Foreign Affairs and the Prime Minister, and very much involved in assisting the resistance movements against the dictatorships in Latin America. We discussed the USSR, its social and political nature and Stalinism. One night was not enough.

We met many of the hundreds of young socialists who were full of energy, joy, humour and determination, sons and daughters of the midnight sun which, during the Norwegian summer, never sets. They were ordinary young people, citizens like all others in a social democracy. No professional revolutionaries – but they were out to change the world. There were as many of them on this little island, maybe even more, than in the whole of our small American group. The American comrades whom we had left behind were no less committed and courageous, but we had now discovered something we had not experienced before – a mass movement of young socialists.

We had now discovered something we had not experienced before – a mass movement of young socialists

This was the movement that Anders Behring Breivik, a fascist activist, attacked on 22 July 2011. After setting off a bomb in the government quarter of Oslo, killing eight people, he landed on the island disguised as a policeman, called together the young people and started gunning down the defenceless youngsters who had not had the slightest inkling of what was about to happen to them. On Utøya, Breivik killed 69 people in the space of an hour and a half.

Norway's Prime Minister Jens Stoltenberg, who is also the leader of the Labour Party, declared that the massacre was an assault on democracy and the open society, and he pledged that Norway would not cave in to it. More precisely, though, it was an attack on the Norwegian labour movement. Breivik was quite explicit: the labour movement, guilty of "cultural Marxism", had to be targeted – and what had to be hit was labour's most precious asset, its youth, to punish it for betraying the nation by promoting "Islamization". If the shooting had happened just a few hours earlier, Stoltenberg himself and former Prime Minister Gro Harlem Brundtland might well have been among the victims. They had visited Utøya that day, to take part in the debates.

[The massacre] was an attack on the Norwegian labour movement

We socialists ought to be more concerned about what is happening to us in northern Europe. On 28 February 1986, Sweden's Prime Minister Olof Palme was assassinated. He had been to the cinema with his wife Lisbet, and as usual they had no bodyguards. At 11.20 p.m., while they were walking home, a man stepped up from behind and fired two pistol shots. The first one mortally wounded Palme. The second one injured Lisbet, who survived. The assassin fled and was never found. A man was arrested and sentenced, but later released upon appeal. The motives for the assassination, and those who may have ordered it, were never identified. The police investigation, which went on for years, led nowhere.

Stemming from the upper reaches of the bourgeoisie, Palme was a "traitor to his class" and the Swedish right harboured an intense hatred for him. In government since 1965, twice prime minister (1969–76 and 1982–6), and Chairman of the Social Democratic Workers' Party (SAP) from 1969 to 1986, he strengthened the social state even further, as well as the trade unions' power vis-à-vis the employers. As regards foreign policy, he was the only leader of a Western government to oppose the Vietnam War. He also opposed the invasion of Czechoslovakia in 1968, the Pinochet coup in 1973 and more generally, throughout his career, the military dictatorships in Latin America, the fascist dictatorships in Europe and the apartheid regime in South Africa. Although never really on the left of the party, he has often been described as a "revolutionary reformist".

Palme's assassination was a turning point in the history of our movement. None of his successors have had his charisma, political intelligence and daring. The SAP lowered its profile. In fact, its moderation probably pushed it out of office. It has lost two parliamentary elections in a row since 2006. It has less of an international presence now, and, as a result, Socialist International (SI) has lost some more of what little influence it retains. Had Palme lived, the capitulation of social democracy to neoliberalism and the "third way" buffoonery of Blair and Schröder would have been more difficult. If Palme's assassination had been the result of a right-wing conspiracy, that plot would have achieved its aims.

It could all have gone differently. In 1998, Swedish social democracy had somewhat recovered. It had a rising star: born in 1957, Anna Lindh was the brilliant chairperson of the Social Democratic Youth League from 1984 to 1990, a member of parliament from 1982 onwards, Environment Minister in 1994, and Foreign Minister in 1998. She was cast in the Palme mould, and the intention was that she would succeed the dull bureaucrat Göran Persson as head of government and of the party.

But the assassin was lying in wait. On the afternoon of 10 September 2003, Anna Lindh was shopping in a Stockholm department store, without any bodyguards of course, when a man knifed her in the chest, stomach and arm. Despite the doctors' efforts, at 05.29 the next morning she was dead.

The assassin was caught on 24 September. He was Mihailo Mihailovič, born in Sweden of Serb parents, angry with the Swedish Government because it had supported NATO in Kosovo. Following various judicial bouts, and his certification as psychologically deranged, he was sentenced to life imprisonment.

After Sweden, that historical bastion of Nordic socialism, it is now the turn of Norway, the only remaining Nordic country with a social democratic government that defends progressive causes at the international level as well as defending the social state. Yet again, a lone madman struck.

A lone madman? That claim is made mainly by the extreme right. Because, of course, if the ideas of the extreme right are to be safeguarded, it is vital to put as much distance as possible between the ideology vehiculated by its parties and the criminal acts their ideology inspires. The belief has to be fostered that fascism is an opinion, not a crime, and that the organizations of the extreme right are made up of normal, ordinary citizens. Whereas in fact, they are nurseries for Breiviks who can emerge anytime, anywhere, armed to the teeth and ready to sow death.

Shortly after the Norwegian drama, Oskar Freysinger, an extreme right-wing Swiss politician famous for opposing the construction of minarets and for stating that abortion has caused an "invisible genocide", gave the following reply to a journalist who pointed out that a number of Breivik's standpoints matched Freysinger's own and those of his party, the Swiss People's Party: "Do you think there will be fewer terrorist attacks and madmen if I'm forced into silence? It will be worse!" That answer should be taken as a threat.

Dan Gallin is currently chair of the Global Labour Institute (GLI). Prior to this, Dan worked for the International Union of Food workers (IUF) from August 1960 until April 1997, since 1968 as General Secretary. He is currently researching union organization of women workers in the informal economy, labour movement history and issues of policy and organization in the international trade union movement.

European integration at the crossroads: Deepening or disintegration?

Elmar Altvater and Birgit Mahnkopf

Are those Member States of the Eurozone having problems servicing their debt the ones responsible for the euro crisis? The majority of people in Europe believe so. Therefore, indebted countries like Greece, Ireland and Portugal must subject themselves to a brutal austerity programme of savage cuts in welfare spending, diminishing public sector wages and further privatization measures in education, health care and the pension system. In short, the social and cultural rights of trade unions and citizens are being trampled upon, triggering both social protest and applause.

The austerity imposed is driven by an attempt to free up funds in the primary budget that could then be used in the secondary budget to service the debt and bail out financial institutions on the brink of bankruptcy that are defined as being "systemically relevant". However, the system, i.e. the project of European monetary integration, can only be saved if there is a fundamental reversal in political direction. There are only two paths we can take right now, and they lead in opposite directions: one towards the disintegration of the Eurozone, another towards the strengthening of European statehood. Conservative and neoliberal economists and politicians are playing with the idea of dividing the monetary union into two (or more) tiers. On one side, a strong, monetarily and financially integrated "Core Europe"; on the other, the countries that would be excluded from the Eurozone, with their own national currencies. Thus it would be France, Germany and a few others that would continue using the euro, but Greece might have to reintroduce the drachma, Portugal the escudo, Spain the peseta and Italy the lira.

Splitting up the Eurozone would create other areas of economic chaos and social and political turmoil. The new currencies that would replace the euro would most likely suffer an immediate drop in value. Devaluation would increase the value of euro-denominated debts (which therefore also need to be serviced in euros). Rating agencies would downgrade the countries' credit ratings. While devaluation would increase monetary competitiveness, this advantage is unlikely to be very useful if real competitiveness does not increase as well. The necessary export industries are missing here. To the extent that the new currencies are devalued, the remaining euro will appreciate. This revaluation would limit the competitiveness of the so-called "real economy" in the Eurozone's Member States and encourage financial capital to speculate. What sort of equilibrium would then be achieved after a period of economic turbulence is impossible to predict.

The other path leads towards deeper political integration. The rules on government debt set by the Maastricht Treaty are obviously insufficient to prevent Europe-wide imbalances and crises. Such imbalances are inevitable if countries like Germany reduce unit labour costs at the same time as they are increasing in other European countries. The current system of crisis management requires indebted countries to adjust, but not countries in surplus. The structural flaw that already contributed to the collapse of the Bretton Woods system in the 1970s is being replicated in the Eurozone. The steps required to correct this flaw would be as follows: on the income side of state budgets, develop rules for fiscal policy and for tax competition, and balancing mechanisms for countries with current account deficits and surpluses. If the Eurozone is to have a future, it is European statehood that needs to be strengthened, not the market.

The current system of crisis management requires indebted countries to adjust, but not countries in surplus

Today the unequal distribution of income and wealth in Europe together with the rating agencies' ratings generate large interest rate differentials between indebted and "wealthy" countries. Within countries this applies only to owners of money wealth, not to waged workers. In debtor countries the results are negative capital account balances; as long as the current account generates no or only small surpluses these can only be resolved through inflows of new capital. The compulsion to generate a current account surplus is instrumentalized to justify austerity measures, i.e. cutbacks in wages and social spending. People affected by these policies do not accept this justification, and are taking to the streets in loud and determined protest.

The compulsion to generate a current account surplus is instrumentalized to justify austerity measures

However, it has to be understood that monetary relations are always mutual and contradictory – this is true also in European and global financial markets. Where there are debtors there are also creditors, and if deficits have to be cut, surpluses cannot grow. Therefore, current public debt levels cannot be blamed only on "loose" fiscal and budgetary policies in today's crisis-ridden Eurozone countries. Responsibility also lies with a policy of redistribution that encourages the formation of large private asset holdings. Furthermore, we cannot ignore the fact that public debts in the Eurozone are so high in large part to the giant bailouts of private banks and funds. That states have to pay ever more money to service their debt has a flipside: private financial market actors have to pay less. The European Central Bank clearly showed this in its expressively titled report *The Janus-headed salvation* published after the collapse of Lehman Brothers in September 2008. Endangered banks were able to dump much of their worthless assets in publicly financed "bad banks". In addition, their capital stocks were boosted from public funds, notably without governments asserting any kind of control over the now socialized banks' business operations. States guaranteed the banks' debts, as the latter were given almost unlimited access to cheap money from central banks. One result of banks being saved by public funds is that the credit default risk of financial institutions is reduced while that of the public sector increases. The above mentioned European Central Bank report refers to a "credit-risk transfer from the banking sector to the government".

Whenever debts are being rescheduled, governments have to pay correspondingly higher risk premiums, but to whom? To the very banks that were bailed out by the governments, and, indirectly, to the owners of money capital who invested in those banks and funds. In this the banks are assisted by the rating agencies that downgrade the "quality" of government bonds because of their increasing debt levels. This is a profound encroachment on democratic prerogatives. A lower rating makes it more expensive to borrow and to reschedule debt and it allows private creditors to collect higher interest rates. We are basically dealing with a self-fulfilling prophecy here: predictions of an impending debt default lead to more expensive debt-servicing, which in turn increases the likelihood of the default. Rating agencies need to be subjected to democratic control. Against this background, serious doubts about the legitimacy of public debt are expressed in countries such as Greece.

To be sure, the reduction of debts and of monetary wealth can also be achieved through inflation. The inflation feared by many has already started rearing its head in the form of increasing commodity and gold prices. The causes are complex, and are not exclusively related to financial and currency markets, but also to commodity and energy markets, and they are subject to catastrophic events such as the explosion of the oil-platform Deepwater Horizon in the Gulf of Mexico, the nuclear meltdown of Fukushima and the conflicts in the Arab world. Inflation would drastically increase distributional inequality. Central banks fight the so-called secondary effects of price increases. How? By preventing wage increases with a tight monetary policy. This strategy is not addressing the root causes of inflation and thus it is unacceptable to trade unions.

The reasonable demand to reduce public debt needs to be complemented by demanding a corresponding reduction in monetary wealth, either by way of a "haircut", regulated by insolvency rules, i.e. getting creditors to play their part in the reduction of debt, or through the effective taxation of wealth, or a combination of both. Wealth taxes have to be reintroduced in all European countries, just as the amount of taxes paid by corporations (especially corporate income taxes) in general will have to go up: by way of European convergence on the taxable base and tax rates, and through tougher controls on tax havens, tax evasion and money laundering. Insolvency rules are also important for an orderly debt cancellation. This is especially true in the case of sovereign debts and necessary for social and political peace to be secured.

Elmar Altvater and Birgit Mahnkopf

This paper is based on a declaration from the Scientific Council of Attac, Germany, Manifesto on the crisis of the Euro (March 2011)*, assessing the political, economic and social consequences of the euro crisis. The authors participated in writing the declaration; they are responsible for the modifications which have been made. The complete version can be found in German and English on the website of Attac Germany (http://www.attac-netzwerk.de/das-netzwerk/wissenschaftlicher-beirat).*

Is the Eurozone doomed to fail?

Jacques Sapir

The Eurozone is currently undergoing a crisis of historic importance, which has resulted in the accumulation of sovereign debt and reveals its internal defects.

Since the beginning of 2010, the crisis in several EU countries has resulted in higher interest rates compared with those found in Germany. This is known as interest rate "spreads" and has challenged the single real accomplishment of the Eurozone: the relative convergence between countries on the debt market that began in 2000. This has been fuelled by the huge growth of sovereign debts in the wake of the 2007 crisis. But even this development could be linked to the euro, as prior to the crisis it allowed a downturn of interest rates, which then facilitated the build-up of the large debt, both private and public, in most Eurozone countries.

Table 1 Situation at the beginning of the crisis (31 December 2009)

	Spain	Portugal	Greece
Total debt (euro billions)	5 315	783	703
Total debt (% GDP)	506%	479%	296%
Amount of total debt held by non-residents	33%	49%	51%
Debt by issuer (euro billions)			
Government	676	121	293
Financial corporations	1 669	238	120
Non-financial corporations	2 053	246	165
Households	918	178	123

Source: C. Lapavitsas et al.: "The Eurozone between austerity and default", in *RMF – Research on Money and Finance*, occasional report (2010, available at http://www.researchonmoneyandfinance.org/).

When the difference between the interest rates of one country and those found in Germany exceeded 300 points, it was clear that the Eurozone had entered troubled waters. The growth of the rate spread was actually caused by the deterioration of the debt situation in Greece followed by Ireland, Portugal and Spain.[1]

Beyond the "at risk" countries, we can see the process of interest rates divergence going one step further. For example, Italy resumed issuing futures on government bonds in September 2009 (a practice that was suspended in 1999 when the euro was introduced). This indicates that operators are seeking to prevent new problems in this segment of the government securities market.[2] The fact that Italy reverted to this type of emission indicates that the euro is fast losing its protective role. The same can be said about worries now openly voiced in Belgium.

Yet, advocates of the euro stressed this role during the crisis. They argued that the euro helped member countries to avoid the consequences of their currencies fluctuating violently against one another. Nevertheless, these fluctuations have been possible because of the long-standing decision to move to complete convertibility (capital account convertibility). Note also that the speculation on exchange rates has been replaced by speculation on interest rates. One wonders what would have been the outcome had capital controls been introduced. But capital controls have been strictly prohibited under the provision of Article 63 of the Lisbon Treaty.

However, it is important to note that the introduction of capital controls is recommended by the IMF[3] to fight speculation. They could have helped avoid currency swings while giving Eurozone countries the possibility to adapt their exchange rate to the massive divergence in the real cost of labour experienced in Europe since 2002.

Openness has made countries totally dependent on the Eurozone

This openness has made countries totally dependent on the Eurozone. The adoption of a single exchange rate and the overvaluation that has characterized the euro since 2003 has also increased the economic pressure on certain members.

The rigid pressure of the single currency "noose" forces some Eurozone countries to resort to ongoing growth of their budget deficits,[4] which raises questions on the competitive deflationary policy of the Stability and Growth Pact within the Treaty of Maastricht (1992) and might have serious recessionary consequences for Europe. We cannot exclude the possibility that some countries may leave the Eurozone.[5] Even the withdrawal of one country would cause a strong speculative movement, which would make the participation of others ever more expensive and eventually impossible.

When the euro crisis broke in April 2010,[6] it had two dimensions: a momentary dimension (the debt crisis in Greece, Italy, Portugal and Spain) and a more important structural dimension. The crisis was triggered by the growing lack of confidence among financial markets that countries with large debts were going to be able to repay them. The crisis began in Greece and then attacked Ireland, Portugal and Spain. It is now obvious that Italy will be next, as it was already the target of speculative attacks in July 2011.

The plan adopted on 9–10 May 2010 was supposed to put an end to the crisis. However, the market response shows that the lack of confidence has increased. The plan has been revamped several times, but each modification has only served to push back problems for one or two months. Market speculation reveals the following:

- This plan does not announce a clear commitment by donor countries as a large part of the funds are just a credit guarantee.
- The total sum is not enough to cover the estimated financial needs of 900–1,000 billion euro for the three countries already targeted by the plan (Greece, Ireland and Portugal). This amount is clearly short of what would be needed if Spain were to be rescued too. The default rate on bank credit has already reached 6.2 per cent of the credit amount. With the planned end of the unemployment benefit package by December 2011, the default rate is likely to surge even higher, maybe to 10 per cent.
- Some countries, such as Germany, are not ready to commit to obligations.

This plan has clearly been designed as an attempt to gain time. The only relevant action has been the ECB's decision to buy out government and private debt, but even this is not completely satisfactory: only monetization of some part of the debt could give real breathing space. In early May Greece asked for more money, and Ireland and Portugal are asking for a renegotiation of their interest rates.

What options are left?

Fiscal austerity plans are pushing some countries to their limits. The fiscal adjustment needed to stabilize the sovereign debt is too great to be swallowed socially by many countries. What is more, the deflationary spill-over effect has not been computed nor introduced in various forecasts presented by governments or independent research centres. Austerity effects will prove to be counter-productive. The cumulative effect of these different fiscal adjustment plans is now plunging the Eurozone into a previously unknown depression.

Table 2 Fiscal adjustment needed to keep the sovereign debt at its 2010 level

	Sovereign debt at end 2010 in % GDP	Amount of budget deficit in % GDP (2010)	Primary deficit (–) or surplus (+) needed to keep the sovereign debt at its end 2010 level	Revised results from growth figures published by independent research centres	Minimal fiscal adjustment (in % GDP)	Maximal fiscal adjustment (in % GDP)
Germany	**77%**	–4.2%	–1.9%	–1.6%	–2.3%	**–26.0%**
Belgium	**102%**	–4.9%	–1.6%	–0.9%	–3.3%	**–4.0%**
France	**82.7%**	–7.6%	–1.1%	–0.6%	–6.5%	**–7.5%**
Italy	**118%**	–5.1%	–0.1%	1.9%	–5.0%	**–7.0%**
Spain	**66%**	–9.3%	1.1%	2.6%	–10.4%	**–11.9%**
Portugal	**86%**	–7.3%	2.7%	5.0%	–10.0%	**–12.3%**
Ireland	**78%**	–17.7%	2.2%	4.7%	–19.9%	**–22.4%**
Greece	**142.5%**	–7.9%	12.0%	15.1%	–19.9%	**–23.0%**
Greece with IMF funding	**142.5%**	–7.9%	6.3%	9.3%	–14.2%	**–17.2%**

Source: Author's computations and CEMI-EHESS database.

The only economic competitiveness of some countries cannot be rebuilt without a strong devaluation. On the other hand, the Russian experience of 1998 is showing that long-term benefits can outweigh short-term pain.

However, such devaluation could not be obtained within the Eurozone: these countries are then bound to leave it, maybe momentarily. Problems will not stop with Greece and Portugal. While some of the Eurozone countries would not benefit from a possible devaluation (Finland, Germany, Netherlands), others would, such as France, Ireland and Italy. Large budget transfers have not backed the single currency system adopted for the euro. Germany strongly continues to oppose turning the single currency into a transfer zone. But, as the single currency has prevented adjustments of the exchange rate, this left fiscal adjustment as the only way open. Fiscal adjustments will not be sustainable.

As the single currency has prevented adjustments of the exchange rate, this left fiscal adjustment as the only way open

The bailout and haircut plan adopted for Greece in late February 2012 will give only a respite. Already, rates volatility on the Portuguese debt is quite beyond that of Greece, and Spain is far away from limits it promised for its budget deficit. The European stability mechanism adopted too late in February is also far short of what is needed.

The coming crisis could mean the beginning of the end for the euro.

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PART II

Whither neoliberalism?

How capital flight drains Africa: Stolen money and lost lives

James K. Boyce and Léonce Ndikumana

Financial scams often cheat working people. In most cases, the victims simply lose their money. In Africa, some lose their lives.

Sub-Saharan Africa has experienced an exodus of more than US$700 billion in capital flight since 1970, a sum that far surpasses the region's external outstanding debt of roughly US$175 billion. Some of the money ended up in private accounts at the same banks that were making loans to African governments.

Inflows of foreign borrowing and outflows of capital flight are closely intertwined. As we document in the book *Africa's odious debts*,[1] there is a strong correlation between the two. For every dollar of foreign borrowing, on average more than 50 cents leaves the borrower country in the same year. This tight relationship suggests that Africa's public external debts and private external assets are connected by a financial revolving door.

Inflows of foreign borrowing and outflows of capital flight are closely intertwined

How does it work? Common mechanisms include inflated procurement contracts for goods and services, kickbacks to government officials and diversion of public funds into the bank accounts of politically influential individuals. Some of Africa's flight capital comes from other sources, too, such as earnings from oil and mineral exports. But foreign loans make an exceptionally easy mark in that there is no need to bother with the messy business of extracting natural resources to convert them into cash.

The tight relationship between external debts and capital flight suggests that the legitimacy of parts of Africa's debts may be challenged, as they were not used for the purposes for which they were contracted and did not serve the interests of the people.

Principals and agents

The history of finance is littered with examples of the hazards of lending other people's money and borrowing in other people's names. In theory, bankers are meant to serve the interests of their depositors and shareholders by making prudent loans that will be repaid with interest. In practice, however, they often are rewarded above all for "moving the money", getting loans out the door. In the wake of the United States financial crisis, this issue belatedly began to attract attention at the United States Federal Reserve Bank.[2]

An analogous principal agent problem operates on the borrower side, where government officials negotiate and disburse loans on behalf of their citizens. Some of them borrow in the name of the government, line their pockets and those of their cronies, and saddle the public with the debt.

When a fraction of foreign borrowing is siphoned abroad, Africa still receives an inflow of money, albeit less than the face value of the debt. The net drain comes in subsequent years when the creditors are repaid with interest.

Using World Bank data,[3] we estimate that each additional dollar of external debt service means that 29 fewer cents are spent on public health, and that each US$40,000 reduction in health expenditure translates into one additional infant death. Putting these together, we calculate that debt-service payments on loans that fuelled capital flight translate into more than 77,000 extra infant deaths annually. It is not only money that is being stolen in Africa: it is human lives.

What is to be done?

The haemorrhage of scarce resources from Africa can be curbed. Efforts by some African governments to recover wealth stolen by past officials have won international backing in the Stolen Asset Recovery Initiative launched by the World Bank and United Nations Office on Drugs and Crime. More can and should be done to identify looters and their accomplices and to repatriate stolen funds.

Tougher anti-money laundering laws and enforcement are needed to staunch the illicit financial flows from Africa into "safe havens"[4] abroad. In the United States, Treasury Department officials concede[5] that banks routinely accept deposits of funds that enter the country in violation of existing laws. Moreover, the banks currently are not prohibited from handling proceeds from many activities, such as tax evasion, that would be considered crimes if committed within the United States.

More transparent information about financial inflows to African governments would also help. Much as the Publish What You Pay[6] campaign launched by international NGOs promotes disclosure of corporate payments for natural resource extraction, a Publish What You Lend campaign could strengthen transparency and accountability in financial markets.

Sealing Africa's financial haemorrhage will also require breaking through the shadows of international finance to enforce transparency and accountability in debt transactions. African countries can and should selectively repudiate odious debts[7] incurred by past regimes. These are debts that were incurred without the consent of the people, where the borrowed funds were not used for the benefit of the public and where creditors knew or should have known this to be the case.

African countries can and should selectively repudiate odious debts incurred by past regimes

The selective debt repudiation strategy is backed by the principle of domestic agency[8] in UK and US law, which requires agents to act in good faith in the interest of the principals. This principle has been frequently violated when corrupt African leaders entrusted to borrow in the name of their countries have instead used the proceeds of the loans to line their pockets and accumulate luxury assets abroad. Similarly their lenders have also breached the principle when they continued to dish out funds despite the evidence that the money was systematically being squandered. In such cases, it is unjust to ask the African people to pay back these loans.

African countries should initiate systematic audits of national debts to establish legitimacy or illegitimacy of each debt covenant. Such audits would shed light on how loans were negotiated, with what conditions, which debts are owed to whom, and at what terms. We can expect that at least some of the past debts will be found to be illegitimate and therefore suited for repudiation. To the extent that audits are conducted competently and transparently, this will lend objectivity and credibility to the process of selective debt repudiation. The labour movement and civil society can play vital roles both in advocating for debt audits and in helping to ensure their transparency.

In 2007 President Rafael Correa of Ecuador established a national debt audit commission in order to attempt to shed light on the nature of the country's debt. The following year, Ecuador's debt audit commission[9] reported that a substantial portion of the debt was illegitimate and that it has done severe damage to the country's people, its economy and its environment. The depreciation of the value of the country's debt following this pronouncement substantially eased the burden of repayment. Disconcerting the critics who predicted doomsday where lenders would cut off the country for further financing, Ecuador's economy not only survived but has grown faster than that of the United States.

Critics of selective repudiation argue that it would bring hardship on the debtor country as it would be penalized by financial markets and cut off from further borrowing. But this threat is a "paper tiger". First, with selective debt repudiation, legitimate creditors would have no reason to fear, as all debts found to be legitimate will be properly honoured. Second, repudiation will certainly benefit countries that are now paying more in debt service than they are receiving in new loans. For these countries, debt repudiation is a wise financial decision. Third, debt repudiation will actually serve the aid effectiveness agenda as grants and loans henceforth will finance genuine development initiatives, rather than being used to bail out the odious debts of irresponsible lenders.

These steps would not only benefit Africa's people today. They also would help to repair our dysfunctional international financial architecture by strengthening incentives for the exercise of due diligence by creditors and for responsible borrowing by governments. Without these changes in the institutional environment, debt relief at best can offer only a temporary palliative. In the world of international finance, what Africa needs most is justice, not just charity.

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The microfinance delusion

Milford Bateman

Thirty years ago, it was widely thought that the perfect solution to unemployment and poverty in developing countries had been found in the shape of microfinance, the provision of tiny micro-loans used by the poor to establish an income-generating activity. Microfinance is most closely associated with the US-trained Bangladeshi economist and 2006 Nobel Peace Prize recipient, Muhammad Yunus. By celebrating self-help and individual entrepreneurship, and by implicitly discrediting all forms of collective effort, such as trade unions, social movements, cooperatives, public spending, a pro-poor "developmental state" and – most of all – collective moves to ensure a more equitable redistribution of wealth and power, neoliberal policy-makers in the international development community fell in love with microfinance. The World Bank, the US Agency for International Development (USAID) and other organizations began to aggressively push forward the concept and, in order to reduce the need for subsidies, also insisted microfinance be turned into a for-profit business. Microfinance soon became the international development community's highest profile, most generously funded and supposedly most effective economic and social development policy.

Reality finally breaks through

Unfortunately, it is now clear that Yunus was wrong. The past 30 years has actually shown microfinance to be part of the problem holding back sustainable poverty reduction in developing countries, and not the solution.[1] Not only is there no solid evidence that microfinance has had a positive impact on the well-being of the poor,[2] since 1990 the microfinance sector has been increasingly marked out by spectacular levels of Wall Street-style greed, profiteering, client abuse and market chaos.[3] It turns out that microfinance has largely been driven forward by nothing more than hype, PR, celebrity support

The microfinance sector has been increasingly marked out by spectacular levels of Wall Street-style greed, […] client abuse and market chaos

and a constant stream of faith-healing-like pronouncements from Yunus and his acolytes.

The problems with microfinance are deep and multi-faceted. First, right from the start it was assumed that no matter how many informal micro-enterprises were helped into life thanks to microfinance, sufficient local demand would always automatically arise to absorb this additional local supply of simple items and services. Yunus was clear on this. However, this understanding is fundamentally wrong: a local demand constraint does exist. Even in the 1970s, local communities in most developing countries were a hive of informal activity with most simple items and services pretty adequately provided by a community's poor inhabitants. An artificially induced increase in supply was thus always likely to generate very little benefit in terms of additional jobs and incomes. Instead, cramming more and more informal micro-enterprises into the same local economic space typically leads to "displacement", where new micro-enterprises only survive by tapping into the local demand that up to then was supporting incumbent micro-enterprises. Thanks to many new micro-enterprises, most of the hapless (and equally poor) individuals already struggling to survive in the micro-enterprise sector are faced with reduced turnover, leading to lower margins, wages and profits. Any employees might have to be dismissed. The additional supply also tends to depress the prices of the local goods and services in question, thus negatively affecting all (new and incumbent) micro-enterprises. In short, all too often microfinance results in promoting nothing more than an unproductive process of local "job churn", with no real net employment, income or productivity improvements registered. Another way to look at it is that the existing community of poor micro-entrepreneurs are effectively being made to pay the price, in the form of lower incomes, for the few net jobs being created in the local community thanks to microfinance.[4] This is hardly fair and equitable.

Compounding the problem of displacement is the related problem of micro-enterprise failure. Even more than small or medium-sized businesses, micro-enterprises are "poverty-push" by nature, and so we tend to see a very high failure rate of such business units. This means into the longer term microfinance generates far less sustainable job creation than is typically thought. Failure also means the poor often experience the dangerous loss of important assets. Households first draw down family savings and divert remittance income to try to repay their micro-loan. If this is not enough, there is then the need to sell off important assets (often at very low prices) such as equipment, machinery, motor vehicles,

Microfinance generates far less sustainable job creation than is typically thought housing and land. On losing these assets, poor households all too often plunge into deeper, and often irretrievable, poverty. While the narrative of those supporting the microfinance movement (notably the World Bank's neoliberal-inspired "Doing Business" programme) focuses upon maximizing the "freedom" and "opportunity" to do business, this deliberately overlooks the negative outcomes associated with failure that are actually the main experience for the majority of the entrepreneurial poor.

In addition, the vast bulk of microfinance is not used to fuel micro-enterprise development, but actually goes to support simple consumption spending. Thanks to easy availability but with interest rates typically very high – one Mexican microfinance bank, Compartamos, charges its poor clients an annual interest rate of 195 per cent – we increasingly find that the poor all too easily end up spending a large part of their incomes on interest repayments. This psychology also helps to account for the dramatic emergence of Ponzi-style dynamics in a growing number of developing countries, characterized by the poor gradually becoming trapped into accessing more new micro-loans simply to repay existing micro-loans. The most dramatic example of this destructive trend was in Andhra Pradesh state in India, a development that in 2010 eventually precipitated the collapse of almost its entire microfinance sector.

The most important drawback to the microfinance model, however, is simple: the programmed output of microfinance – informal micro-enterprises – is completely the wrong foundation upon which a country can attempt to escape poverty and deprivation. A country needs a flourishing enterprise sector based upon a critical mass of enterprises possessing the capacity to achieve minimum efficient scale, deploy some state-of-the-art technologies, develop some innovative capacity, productively link with other enterprises vertically (sub-contracting) and horizontally (clustering), and with some potential to exploit non-local markets. With such prerequisites in place, long-term productivity growth is possible and so also sustainable poverty reduction. As Chang shows,[5] this is the experience of today's rich developed economies, as well as that of the more recent East Asian "miracle" economies. However, thanks to their growing exposure to microfinance, today's developing countries have been heading in the opposite direction.

The experience of Africa and Latin America illustrates the immense scale of the problem. Africa already has more micro-entrepreneurs per capita than anywhere else, and the rapidly expanding supply of microfinance is increasing this number. Yet Africa remains trapped in its poverty precisely because it has only evolved such a shallow enterprise structure, one that is structurally incapable of giving rise to sustainable productivity growth. The Inter-American

Development Bank (IDB) also points to the same adverse dynamic to explain why Latin America's recent history is one of very high levels of poverty and unemployment.[6] Latin America has for too long channelled too much of its scarce financial resources into low-productivity informal micro-enterprises and self-employment, and too little into more productive formal small and medium-sized enterprises. The IDB has blown out of the water the belief that Latin America has benefited from the programmed expansion of microfinance.

But policy-makers still don't get it

Bad policy choices are still being made with regard to microfinance. As even a cursory glance at CNN or Al Jazeera will have shown, the brave young people behind the Arab Spring uprisings in North Africa are not just calling for the overthrow of dictators, but also for "real jobs" – that is, jobs that are meaningful, dignified, secure and make use of their high-level professional skills (often expensively acquired abroad). As one demonstrator said, the young in North Africa now demand a decent working life, and "not just selling falafel on the street corner". However, the World Bank, USAID, European Bank for Reconstruction and Development (EBRD) and other agencies are currently planning to assist these young people mainly with microfinance programmes, the aim of which is essentially to support exactly the type of jobs that have just been so ferociously rejected. Microfinance might actually inflame the situation in North Africa.

Similar wrong-headed thinking is found in the European Commission. Through a new €100 million microfinance fund, the EC hopes to promote a new raft of micro-enterprises in the worst recession-hit locations, and so create new jobs. However, with virtually all EU countries now seeing their existing micro-enterprise sector dramatically contracting thanks to a decline in local demand, the vast majority of new micro-entrepreneurs are going to find it almost impossible to identify new sources of local demand with which to begin and to grow. In Greece, for instance, the dramatic fall-off in local demand has meant more than half of its existing micro-enterprises and small businesses – cafes, small retailers, bars, fast-food joints, etc. – are today unable to meet their payroll, laying off employees or closing down. The same downward spiral holds for most EU countries. It is a cruel fantasy to expect new micro-enterprises to be able to take root in the same communities.

Microfinance was for so long seen as an effective market-driven intervention that was massively reducing poverty and promoting sustainable "bottom-up" development. Even long-standing supporters now accept this claim to have been false.[7] Even at this late stage, we urgently need to understand the drawbacks to microfinance and begin to redirect our scarce resources into much better uses, notably credit unions, financial cooperatives, community development banks and so on. Only in this way will local communities be spared even more financial sector-driven damage than that inflicted on them already, thanks to our long-standing but fundamentally mistaken belief in the power of microfinance.

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[7] M. Harper: "The commercialisation of microfinance: Resolution or extension of poverty?", in M. Bateman (ed.): *Confronting microfinance: Undermining sustainable development* (Sterling, VA, Kumarian Press, 2011).

The true cost of doing business

Conor Cradden

There is a belief widely shared among policy-makers that if arguments for a proposal or decision are supported by numbers on a page then somehow this makes that choice less political. It permits the claim that what is being proposed is not really a choice at all but something that the "evidence" demands. This emphasis on quantitative indicators has meant that much policy argument has been displaced into the design of the indicators themselves. Rather than being grounded on purely technical criteria, the design of statistical indicators is a highly politicized process in which different stakeholders struggle to ensure the numbers that emerge will be more compatible with arguments in favour of their policy predilections than those of the opposition.

The design of statistical indicators is a highly politicized process

The "Doing Business" indicators

The World Bank's "Doing Business" (DB) indicators are a shining example of statistics that come with this kind of built-in value judgement. The DB indicators claim to be a guide to the relative ease of establishing and running a business in different countries. This is "measured" on a number of dimensions, including starting up, paying taxes, getting construction permits and enforcing contracts. The indicators allow the construction of rankings, including an overall global ranking that places Singapore at the top – making it the world's easiest place to do business – and Chad at the bottom.

This might appear to be an innocent enough endeavour. While states obviously have the right to ensure that there is a proper measure of social and political oversight of economic activity, it is also obvious that oversight procedures can be more complicated and more expensive than necessary. However, although the World Bank denies that the DB indicators encourage deregulation, the information the indicators provide gives no way of judging whether the cost of conforming with regulation is reasonable in the light of the social, economic and environmental benefits that it produces. They have nothing to say about whether a country might on the whole be better off because of regulation. Since the social costs associated with deregulation are invisible to the DB indicators, governments whose concern is to improve their position in the DB ranking – and in some cases this is even a condition of financial aid from the World Bank – have no incentive to take the potentially negative effects of deregulation into account.

The "Employing Workers" indicator

Nowhere is the assumption that regulation is only a cost clearer than in the case of the "Employing Workers" (EW) sub-indicator. A country's EW score depends on the cost of making employees redundant and a measure called "rigidity of employment", which is a composite index where the highest possible score corresponds with a low minimum wage for starting employees, easy availability of fixed-term rather than permanent contracts, minimal restrictions on night and weekend working, high maximum permitted weekly working time, a low number of days of paid holiday and minimal requirements for notice and consultation when making redundancies.

Not surprisingly, the EW indicator has attracted criticism from many directions, but most notably the global labour movement. The International Confederation of Free Trade Unions (ICFTU) criticized the DB indicators within weeks of their first publication in 2003. Since then the Confederation, and subsequently the International Trade Union Confederation, has set out objections on a number of occasions, both in direct communication with the World Bank and in public papers. In 2007, the ILO joined the debate, producing an official paper[1] that criticized the EW indicator on technical grounds, but also because of what it called problems with "policy coherence" – in other words, the EW indicator cut directly across the ILO's own, arguably more legitimate policies. The ILO argued that the view that "reducing protection to a minimum and maximizing flexibility is always the best option" was badly mistaken and that the EW indicator was "a poor indicator of the investment climate and labour market performance".

The ILO WB Consultative Group

The paper sparked a series of exchanges between the ILO and the World Bank that culminated in the establishment of a consultative group (CG) to serve as a "source of advice" on revising the EW indicator. Around the same time – early in 2009 – pressure from the global unions led to the World Bank agreeing that, at least until the group reported, the EW indicator would not be included in the calculation of the overall DB ranking nor used as a basis for policy advice. The consultative group included senior World Bank and ILO officials together with global union, employer and OECD representatives. There were also three independent members, a labour law expert, a social entrepreneur and a public servant.

The ILO's decision to participate in the CG will not have been taken lightly – even though in principle all of the members were acting in their personal capacity. Not participating would have meant missing a rare opportunity to have an impact on an influential indicator, but participating was arguably a gamble. The risk was that the group would come up with conclusions that did not adequately respond to the ILO's criticisms but that the Bank would put its recommendations into effect anyway. If the ILO wanted to object, it would be forced to get into a public argument with the Bank about the adequacy of an indicator in whose revision two of its senior officials had just participated.

Now that the CG has produced its final report[2] it is not obvious that the gamble paid off. The solution proposed to the principal problem – the fact that lower standards of labour protection receive a higher score – is hardly adequate. Three elements of the indicator – minimum weekly rest periods, paid holiday entitlement and the level and means of setting the minimum wage – have been changed from being in a simple inverse relationship with the indicator score (the lower the better) to a kind of "banding" system in which the policy target is to have these protections fall within a lower and an upper limit. Not enough holiday and a country will not receive the maximum possible score, but the same is true for what is deemed to be too much holiday. A similar change is proposed for maximum weekly working time. The ranking on the minimum wage indicator for countries that have one remains inversely related to the ratio of the wage to the average value added per worker, but countries that have no minimum wage no longer receive the best possible score. This is reserved for systems in which the minimum wage is set by collective bargaining – as long as it applies to less than half the manufacturing sector or does not apply to firms not party to it – and systems in which trainees or apprentices are excluded.

The report of the CG makes it clear that it was split on whether the changes to the EW indicator are adequate. "One view" was that the modifications dealt with the substantial problems and that the EW indicator should be reintegrated into the overall DB indicators. A "second view", on the other hand, "noted that EWI did not adequately reflect worker protections even after the amendments made, and that the Doing Business report should reflect labour regulations holistically, or not at all". This second view also argued that if the EW indicator was to continue to be used, there should also be a separate, quantitative "worker protection measures" indicator published alongside the DB indicators. However, although this idea was discussed by the CG,[3] it failed to agree a recommendation on the issue.

What happens now?

The ILO now has to decide whether to carry on working with the World Bank. If it does not, the World Bank will probably put the modified indicator back into use, and may also go back to basing policy advice on the EW indicator. Certainly the ILO doesn't have to endorse the revised indicator, but if it wants to avoid a public argument, the best it can do is maintain a studied neutrality on the issue. The fact remains, though, that the DB indicator is still a barrier to the improvement of working conditions and quietly accepting its existence would be cowardly at best. The obvious question is why the ILO does not try to take the collaboration implied in the consultative group one step further and to work to persuade the World Bank that there ought indeed to be an official, jointly developed worker protection indicator. The stakes are not so high here since the ILO clearly has moral and technical authority on the issue that the Bank cannot claim.

The DB indicator is […] a barrier to the improvement of working conditions

So why the deafening silence from the ILO? There has been no comment on the report of the CG, still less any indication of whether the ILO wants to carry on working with the World Bank. In fact, the problem for the ILO is less with the outside world than its own constituents. The possibility of producing a "decent work" indicator has been floating around for more than ten years. That such an indicator has not (yet) been developed is partly a reflection of the traditional reluctance of employers and governments to allow themselves to be ranked, and partly a reflection of disagreement about whether such an indicator should be focused on outcome measures – the extent to which decent work is a reality for workers on the ground – or regulation – the extent to which the formal rules conform with ILO policies. These are difficult questions, but making a determined effort to resolve them is likely to be less costly for the ILO than allowing the World Bank to continue to use and promote its EW indicator.

Notes

[1] http://www.ilo.org/gb/WCMS_085125/lang--en/index.htm

[2] http://www.doingbusiness.org/methodology/~/media/FPDKM/Doing%20Business/Documents/Methodology/EWI/Final-EWICG-April-2011.doc

[3] http://www.doingbusiness.org/methodology/~/media/FPDKM/Doing%20Business/Documents/Methodology/EWI/Annexes-EWICG-April-2011.doc

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The costs of the financial crisis of 2008–09: Governments are paying the tab

Sebastian Dullien

One could almost get the impression that the storyline of the global economic and financial crisis of 2008–09 is forgotten. Questions of bank regulation and financial sector oversight are hardly discussed in public any more and legislative efforts to rein in speculative and highly risky activities seem to have petered out. Instead, the public debt crisis has taken centre stage. Around the world, discussion focuses on cutting public deficits, with a strong focus on cutting public expenditure and a secondary focus on raising general direct and indirect taxes. The debate has turned from one about obvious market failures, especially in financial markets, to one about alleged government failure. That is, governments spending much more than they take in as revenue and hence piling up increasingly unsustainable public debts.

However, if one looks into the details of the development of the public debt in many of today's crisis countries, it becomes clear that it is precisely the economic and financial crisis of 2008–09 which has put the debt levels onto an unsustainable path. Prior to the crisis, countries such as Ireland and Spain and probably even the United States were on a path of (or at least close to) fiscal sustainability. After the crisis, markets now question public finance sustainability even in countries such as France.

It is precisely the economic and financial crisis of 2008–09 which has put […] debt levels onto an unsustainable path

In a study commissioned by the Friedrich Ebert Foundation, the costs of the global financial and economic crisis for Germany, a country which is not a core crisis country but is often revered for its resilience in the crisis and its rapid recovery afterwards, were calculated. The study tried to pin down the costs of the crisis for the economy as a whole as well as for different groups in the country such as wealth owners, wage earners and the government. Germany is an important case study here as it did not experience a real estate bubble prior to the crisis. One can thus argue that the crisis costs can be seen as being completely exogenous to the crisis.

How to compute costs for different sectors

Computing the costs of the crisis is not as simple as one might think. It starts with the government sector. One cannot simply use the headline figures presented in the mainstream media on bank rescue packages and stimulus packages and add them up. Firstly, large parts of the bank rescue packages have not been real costs to the governments. If a government gives a guarantee to a bank and the bank continues business without the government ever having to pitch in, this is not a real cost in the end. If a government injects capital in private banks and later sells off the shares again, only the net loss can be counted as a cost. If the government sells the shares for more than it has injected earlier (as has been the case for the Swiss measures to support the country's large banks), there are no costs, but rather profits. Only if the government has to inject money into the financial system in a way that it cannot recoup later, the injection has to be counted as a cost. Similarly, if a publicly owned financial institution has incurred losses, these are clearly net losses for the government. For these costs stemming either from direct losses of public banks or non-recuperative injections of public funds, the term "direct costs" of the crisis is used.

Secondly, stimulus packages cannot be seen completely as net costs. If a government builds new highways or repairs public buildings in the crisis as a stimulus measure, it incurs expenditure, but at the same time the value of the public assets increases. Again, as long as the government does not overpay and does not build useless gimmicks such as pyramids, this spending is not a net cost.

In contrast, tax cuts used to stimulate private spending might at least be net costs to the government; yet, if we are interested in the macroeconomic costs, we need to keep in mind that these tax cuts increase the disposable income of the private sector and hence are not net costs to the economy as a whole.

Loss of government revenues – An important cost factor

Be that as it may, looking only at expenditure for stimulus packages and bank rescue packages misses an important part of the costs: the automatic fall in tax revenues caused by the recession and the automatic increases in expenditure stemming from such a crisis, that is, for unemployment compensation. The costs of lost government revenue or higher transfers of lost output are termed "indirect costs".

Similarly, computing the costs for the private sector is not completely straightforward. If someone defaults on their mortgage and the value of mortgage-backed securities falls, this is not necessarily a net cost to the economy. While the bank loses, the person defaulting on the mortgage might increase their net wealth. As long as both the debtor and the creditor are domestic, this does not change the net wealth of the economy. Only if the debtor is foreign, a default changes the net wealth of the country in question. However, just looking at losses in the financial markets again neglects important elements of the crisis costs: the loss of output and consequently wage and profit income of the private sector through the crisis. In parallel to the terms used for the public sector, the private sector has borne both direct and indirect costs of the crisis. Direct costs are those caused by a fall in the net value of assets. Indirect costs are income flows foregone due to the crisis.

Three scenarios were calculated: an optimistic rapid return to the old growth path; a slower return to the old growth path; and a pessimistic scenario in which output never recovers to the pre-crisis growth path, but remains significantly below this path.

High costs despite rapid recovery

By the time of writing (early 2012), the German economy has developed roughly in line with our most optimistic scenario. The scenario assumes a GDP growth rate of 3.5 per cent in 2010 and 2.8 per cent in 2011. GDP growth actually came in even slightly above this assumption. However, as the recovery seems to have stalled at the end of 2011 with GDP contracting in the fourth quarter, the adjustment from 2012 onwards will almost certainly be below the assumed path in this optimistic scenario. Thus, one can say that the most likely real-world development will be between our most optimistic and the medium scenarios.

Table 1 presents the results of our computation.

- The first very interesting result is that indirect costs of the crisis dwarf direct costs. Total costs, even in the most optimistic scenario, are around €700 billion, of which only a little less than €100 billion are direct costs. In the less optimistic scenario, the ratio becomes €2,154 billion to €100 billion.

- The second central result is that the government bears most of the crisis costs. Government revenue even in the most optimistic scenario (which now can be seen as the lower limit) has been hit by a total of €270 billion or more than 10 per cent of GDP. In the less optimistic scenario (which now can be seen as the upper limit) costs to the government total around €800 billion or more than 30 per cent of current GDP.

- The third interesting element is that wage and transfer earners in Germany might not be quite as hard hit as sometimes feared. In the more optimistic

Table 1 Crisis costs for wage and transfer recipients, wealth owners and government in Germany

Optimistic scenario

	Wage earners and transfer recipients	Wealth owners	Government	Total
Direct costs	0	73	22	95
Indirect costs	177	188	248	613
Total	177	261	270	708

Less optimistic scenario

	Wage earners and transfer recipients	Wealth owners	Government	Total
Direct costs	0	73	22	95
Indirect costs	755	527	777	2 059
Total	755	600	799	2 154

scenario, their incomes are only reduced by €177 billion, yet in the less optimistic scenario by €755 billion. The low value for the optimistic scenario is probably a special feature only to be found in Germany and might be explained by the labour market policies during the crisis when the German government paid firms to keep workers on reduced hours instead of firing them ("Kurzarbeit"), which in turn led to a very low increase in unemployment in Germany during the crisis.

In international comparisons, the costs in Germany can probably be seen as rather modest. Germany has experienced one of the most vigorous recoveries after the crisis. Yet, already in Germany, the crisis can be seen to have been responsible for a significant deterioration of public finances. Wealth owners, who can be viewed as the main beneficiaries of a deregulated financial sector which has wreaked havoc in the economies of most advanced countries, in contrast, have only borne a comparatively modest part of the crisis costs.

Wealth owners […] have only borne a comparatively modest part of the crisis costs

Following the user-pays principle: Taxing the rich

This imbalance in bearing the crisis burden should be kept in mind when measures to rebalance the public accounts in the OECD countries are discussed. Wealth owners here should at least pay a fair share of the burden. Specifically, this means that the balance between spending cuts and tax increases and the specific changes to the tax codes which have been part of many austerity packages need to be rethought. The first point here is that budgets should rather be balanced by tax increases than cuts in social security spending.

Second, when taxes are increased, a focus should be on those types of taxes which are borne by people who have in the decades before benefited the most from deregulated financial markets. This would mean a focus on increasing taxes on interest and dividend income, capital gains and wealth. In addition, one should also increase the income tax rates in the top tax brackets as these individuals disproportionately benefit from the investment opportunities in deregulated financial markets. Last but not least, these numbers support a financial transaction tax as well as a financial activities tax. Both make financial transactions and financial intermediation slightly more expensive and will secure that society at least gets a small share back of the costs that irresponsible financial markets and financial institutions have incurred.

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PART III

Defending workers: Fresh ideas, new mobilizations

The march to protect worker rights and the middle class

Cathy Feingold

In 2011, thousands of workers marched in the streets and occupied the state capitals of Wisconsin, Ohio and Indiana. Sparked by protests in March 2011 in Madison, Wisconsin, workers and union members across the United States rallied in front of statehouses in support of collective bargaining rights for public sector workers. They decried the attacks by their Republican governors to eliminate collective bargaining rights, pass anti-union legislation and blame public employees and their unions for widespread budget crises.

These attacks reflect some of the greatest challenges to protecting public sector workers since the 1981 PATCO (Professional Air Traffic Controllers Organization) strike when President Reagan fired striking air traffic controllers and paved the way to allowing replacement workers. Americans understand that what is at stake is not only the wages and benefits of public sector workers but their right to bargain collectively. While Republican governors claim that the budget deficit drives their decisions, their real agenda is to attack collective bargaining rights and weaken unions.

The protestors marched in state capitals that are also sites of struggling economic recovery. With US unemployment sticking close to 8.3 per cent and underemployment close to 16 per cent, and with slow job growth in only either low or very high skill sectors, most unemployed workers find it a real struggle to secure a mid-level position. With the loss of higher paying union manufacturing jobs, many workers look to the public sector for a foothold in the middle class. Yet state budgets are suffering from the negative revenue consequences of high unemployment and falling house prices. The proposed elimination of collective bargaining, by making it even harder for public sector workers to maintain their standard of living (be consumers, buy houses, etc.), will only serve to further damage state budgets and harm the overall economy.

Americans understand that the road to economic recovery remains fragile and that continued unemployment, underemployment and rising oil and food prices continue to threaten a full recovery. However, despite continued economic insecurity, Americans oppose any attempt to use the budget deficit debates as an excuse to strip them of the collective bargaining rights they fought so hard to obtain. Over two million people signed petitions to recall the Governor of Wisconsin and voters will go to the polls later in 2011 to vote to try and recall the governor. In a poll taken during the Wisconsin collective bargaining protests, 64 per cent[1] of Americans polled supported the right to collective bargaining for public sector workers. Sixty-three per cent, including 55 per cent of Republicans, said states facing a deficit, and claiming that they cannot pay for all the pension benefits promised to current retirees, should not be allowed to break their commitments. Even after public sector workers agreed to wage and benefit concessions, Republican governors continued their targeted assaults on collective bargaining rights.

> *Americans oppose any attempt to use the budget deficit debates as an excuse to strip them of the[ir] collective bargaining rights*

Why do these attacks continue when most Americans support the right of public employees to collective bargaining? It's simple. The 2010 elections brought in a new group of Republican governors and legislators across the country who are putting forward legislation to eliminate or weaken unions – a key constituency and base of support for Democrats. The real goal of Republicans now is to reduce public sector unions (who now represent 37 per cent of the public sector workforce) to the same paltry level as private sector unions, currently representing only 6.97 per cent of the private workforce. In 2011, 7.6 million of the 14.8 million union members in the United States worked in the public sector.[2] By weakening the power of unions, Republican governors weaken the base of the Democratic Party. Of course, this is not just an assault on unions, which have historically been a key support base for the Democratic Party, but on the middle class. In the United States, the majority of workers receive minimum social protection from their employers. Defined pension plans have been replaced with privatized savings plans, called 401k plans, and workers pay higher premiums for health-care coverage. Corporations, although currently sitting on US$1,800 billion in profits, claim that to stay competitive they cannot increase wages or provide more benefits. This model only contributes to the growing inequality in the country where the top 5 per cent control 63.5 per cent of the country's wealth.[3] The US economy is now in a race to the bottom where workers are forced to compete for increasingly poorly paid, insecure jobs with no benefits.

The ongoing debate over collective bargaining and unions relies on the false assumption that public sector workers caused the budget crises and must now pay the consequences by giving up their rights, wages and benefits. While public sector workers and unions are blamed for budget deficits, elected officials will not risk advocating for increasing taxes on the wealthy and on corporations as a sensible alternative to attacks on the middle class and regular workers. Most understand that to do so would jeopardize their access to funding for re-election campaigns.

As unions in Wisconsin prepare for recall elections that would replace Republicans who voted for the anti-union bill with Democrats who would fight to repeal it, unions in Ohio celebrate their victory on repealing the extremely anti-union legislation that would have limited collective bargaining for 350,000 workers and eliminated binding arbitration and the right to strike. Even with this victory, the attacks continue to spread throughout the country with anti-worker legislation.

In 2012, "right to work" legislation will represent a key challenge for US unions. Despite the name, "right to work" does not create greater job security but rather weakens union bargaining strength by making it more difficult for unions to collect dues and sustain themselves financially. Proponents of "right to work" legislation claim that by weakening unions and lowering labour costs they will help attract investment, especially manufacturing, to their states. Proponents claim that the state "wins" with this legislation but studies show that, in "right to work" states where unions are weakened, workers saw reduced wages by US$1,500 a year, for both union and non-union workers, and lower the likelihood of health-care coverage or employer defined pensions.[4] In February 2012, Indiana became the 23rd "right to work" state in the United States and 13 states are expected to introduce "right to work" legislation.

The attacks on workers not only target the rights of public sector workers and unions but also the rights of immigrants and voters. In June 2011, Alabama passed the most restrictive anti-immigrant law in the country that allows police to detain immigrants under the "suspicion" of being undocumented and requires government offices to verify legal residency for everyday transactions including getting a job, enrolling children in school and renewing licences for businesses. Alabama also passed a voter identification law that will be enacted in 2014. In the United States, all citizens are not automatically issued with legal identification papers, so to obtain identification workers need to take time off work and pay for it. The law attempts to create another barrier for voting in communities that traditionally support the Democratic Party including Latinos, the elderly and African American youth. Around 62 per cent of Latino registered voters say they identify with or lean toward the Democratic Party,[5] so the anti-immigrant and voter identification laws are considered direct attempts to suppress their vote. Similar anti-immigrant and voter identification laws are being introduced throughout the United States.

In 2012, the attack on workers, unions and immigrants will continue. While public sector workers continue to be blamed for high pay and benefits, conservative politicians try to create support for massive cuts in social spending, taxes that favour the wealthy and a greatly reduced public sector. In reality, America's budget deficits have not been caused by excessive compensation for teachers, firefighters and other public servants. The country's budgetary woes are more related to the recent economic and financial crises in the housing market and unfair tax codes. The careless financial practices on Wall Street, not the greed of our kindergarten teachers, brought about the recession and its negative effects on employment and state budgets. The call for the elimination of collective bargaining and economic austerity and attacks on immigrant workers and voters will not address these root causes and will only serve to dampen demand in the economy. The use of the current fiscal crisis by politicians to strip workers of their rights and impose severe reductions in wages and benefits will create greater hardship for workers and middle-class families struggling to regain their footing.

The elimination of collective bargaining […] will only serve to dampen demand in the economy

Notes

[1] Bloomberg national poll, 4–7 March 2011.

[2] US Bureau of Labor Statistics: http://www.bls.gov/news.release/pdf/union2.pdf (accessed March 2012).

[3] Economic Policy Institute: http://www.epi.org/publication/top_5_holds_more_than_half_of_the_countrys_wealth/ (accessed March 2012).

[4] H. Shierholz and E. Gould: *The compensation penalty of "right-to-work" laws*, 17 February 2011, Washington, DC, Economic Policy Institute, http://www.epi.org/publication/bp299/ (accessed March 2012).

[5] http://www.pewhispanic.org/files/2010/10/127.pdf (accessed March 2012).

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Supporting dissent versus being dissent

Steven Toff and Jamie McCallum

When the Occupy Wall Street (OWS) movement began in September 2011, few anticipated the wave of occupations that would sweep the country and capture the world's imagination in what has been referred to as the "American Fall".[1] While it remains to be seen how this inchoate movement will mature, it has so far exceeded everyone's calculations – it is the first time since the 1999 anti-World Trade Organization demonstrations in Seattle that tens of thousands in the United States are taking to the streets for economic reasons. Average Americans, many of whom have long understood the moral and economic turpitude at the root of Wall Street, are now expanding that stance to make a wholesale critique of neoliberalism and questioning the most foundational principles of capitalism. Despite its occasional penchant for protest and militant action, and its position as virtually the only organization made up of the working class of the United States, the labour movement has been unable to mobilize itself or recruit others in the cause against rising income inequality and the erosion of democratic protections for workers. Now that the OWS movement has raised the issue, built a movement base and reached out to labour, there remains a looming question: how will unions respond to the call?

It is the first time since […] 1999 […] that tens of thousands in the United States are taking to the streets for economic reasons

Enterprise bargaining and moving the labour movement

For many of our international comrades, the question has been "What took you so long?" Despite labour's best intentions and goals, neither unions nor traditional left organizations have driven this movement. For those familiar with the idiosyncrasies of US unions, their peripheral role in the occupy movement is no surprise. In many countries, unions are seen – and more importantly, see themselves – as representing the interests of all working people. By contrast, as a consequence of legislation that legitimized trade union activity in this country in the midst of the Great Depression, nearly all unions have fallen into the role of advocating solely on behalf of their members, a constituency that has been declining rather steadily toward extinction and political apathy for the last five decades.

Fast forward to September 2011, and we see an uprising of mostly non-unionized working and poor people, unemployed youth and students, taking the very message that labour should have been championing directly into the seat of power. These events were as shocking for labour as they were for everyone else, though for unions the surprise has been accompanied by at least slight embarrassment. As one US labour activist remarked, "There is a sense that they [the occupy movement] beat us at our own game."

Unions and the occupy movement

On 5 October 2011, AFL-CIO president Richard Trumka announced that US unions "support the protesters", remarking that he was "proud that today on Wall Street, bus drivers, painters, nurses and utility workers are joining students and homeowners, the unemployed and the underemployed to call for fundamental change". Service Employees International Union, the largest union within the Change to Win Federation, likewise declared, "Occupy Wall Street: We've Got Your Back."[2] These are welcome pronouncements of support for direct action, but they do not constitute a comprehensive response. There is a difference between supporting dissent and being dissent. There has not recently been a more opportune moment for labour to forge a new course; as labour activists, we join a growing chorus within the union movement that feels the occupy movement is labour's movement too.

We join a growing chorus within the union movement that feels the occupy movement is labour's movement too

There are isolated examples of this. Unions have turned out thousands for specific rallies in New York as well as throughout the country for different marches and days of actions. This adds a substantial dose of legitimacy to the protests within the national media. National Nurses United (NNU) has joined the actual occupations in a number of cities, setting up "Nurses Stations" at the encampments, sleeping in the camps and even being arrested with the occupiers. On numerous occasions in California, Massachusetts, New York, Ohio, Pennsylvania, Vermont and elsewhere, unions have joined marches and rallies. They have worked alongside the occupy movement to draw attention to some of their otherwise insulated contract fights, such as those at Verizon and Sotheby's Auction House.[3] By and large, unions have followed through on Trumka's pledge to "open our union halls and community centers as well as our arms and our hearts to those with the courage to stand up and demand a better America". But nowhere has the prospect of a labour community coalition been more of an issue than along the West Coast.

Occupy the waterfront

In an effort to escalate the occupy movement, and to draw closer connections with labour, Oakland organizers shut down the Port of Oakland on 2 November 2011 in what was billed as the first general strike since 1946. Although a number of unions did endorse the action, and trade unionists were a large portion of the crowd that day, no union actually mobilized their members to strike. One reason has to do, again, with the legal structure that has ensnared the labour movement. The unions in the United States have almost without exception traded away or lost their right to strike during the duration of a contract with management. It is a supreme irony of US unionism that the few strikes that do occur today are usually directed at winning a contract, the same mechanism that binds them to quiescence. But unions have broken the law before; they can do it again.

While the action may have been smaller than general strikes in the past, and short-lived, it was a clear success. The Port of Oakland closed, businesses that had advertised their hostility to the occupy movement were threatened into shuttering for the day, and mainstream and independent media were largely sympathetic. Although unions were peripheral participants, with the notable exception of the International Longshore and Warehouse Union (ILWU), individual rank and file members took to the streets together with broad swaths of radicals in what was one of the most powerful displays of working-class solidarity the occupy movement has yet produced.

In December the West Coast occupy movement and labour allies threatened a land and water blockade of a ship carrying grain in Longview, Washington, forcing the company to settle their contract with the ILWU at the port. Occupy protesters were inspired to take action by a similar blockade by port truckers earlier in the summer in Portland, Oregon. A California ILWU leader was unequivocal about the occupy movement's role in bringing the grain company to the bargaining table: "Make no mistake – the solidarity and organization between the occupy movement and the longshoremen won this contract," he said.[4]

Labour and occupation: past, present, future

It was labour that pioneered occupation as a tactic within American social movements. The workers who took over the automobile plants in the American Midwest in the 1930s transformed the labour movement and the social fabric of industrial life. Recently, this tactic made a brief but spirited comeback during the Republic Windows and Doors sit-in in Chicago, which targeted Bank of America as much as the local employer, and the occupation of the capital in Madison, Wisconsin, by a group of students, workers, unionists and community activists. Today, in addition to actual instances of labour-OWS collaboration, we see the shifting ideological and discursive orientation of some large unions today, as they replace the rhetoric of "saving the middle class" with the new vernacular of the 99 per cent. It would therefore be a mistake to suggest that labour's "bit actor" status within the occupy movement is structurally pre-ordained or historically precedented.

Historically there has been an uneasy peace between unions and broader movements. Political manoeuvring of elites, outright deception and a perceived conflict of interest have often divided coalitions of labour and social movements, and already there are reports prefiguring a similar dynamic within the occupy movement.[5] But the occupy movement's insistent focus on so many themes central to those taken up by labour is nonetheless cause for hope. The labour movement has much to consider when joining the occupy movement as a true partner – its considerable treasury, the political orientation of its members and leadership, its political connections based on decades of negotiation. For these reasons, we understand labour's ambivalence toward the occupy movement not as a stance against it, but as an unwillingness to take the necessary risks. Of course the inverse is also true – there is a risk associated with not participating, which we feel has far graver consequences.

Writing in the midst of the explosive revolts in Paris, 1968, Henri Lefebvre said, "Events belie forecasts. To the extent that events upset calculations, they are historic."[6] In this respect, OWS is already historic, as it has defied the unsympathetic and pessimistic predictions of both the left and the right. But the biggest question now concerns its future. The evictions of occupy encampments almost everywhere suggest that democratic governments are not allies, and that the movement will need to be innovative to remain relevant. Indeed labour has found itself in this position for a long time. Therefore, our Eleventh Thesis should be: labour leaders and workers have long recognized the need for an opportunity to forge a new future; the point now is to take it.

Notes

[1] A. Mohyeldin: "From the Arab Spring to the American Fall?", in *Time* (12 October 2011, http://ideas.time.com/2011/10/12/from-the-arab-spring-to-the-american-fall/, accessed March 2012).

[2] Service Employees International Union: 5 October 2011, http://www.seiu.org/2011/10/seiu-supports-occupywallstreet.php (accessed March 2012).

[3] K. Nash and M. Rosenberg (Producers): “Occupy Wall St. protest – Sotheby’s, Stop & Frisk, Verizon”, Building Bridges Radio, 23 October 2011, http://www.buildingbridgesradio.blogspot.com/ (accessed March 2012).

[4] West Coast Occupy: http://www.occupytheegt.org/ (accessed March 2012).

[5] J. Elliot: “Keystone XL splits unions and Occupy Wall Street”, in *Salon.com* (7 November 2011, http://www.salon.com/2011/11/07/keystone_xl_splits_unions_and_occupy_wall_street/, accessed March 2012).

[6] H. Lefebvre: “The explosion: Marxism and the French upheaval”, in *Monthly Review Press* (1969).

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Decent work 2.0

Frank Hoffer

Juan Somavia, the long-serving Director-General of the International Labour Office, announced that he will step down in September 2012. As head of the ILO, he introduced the Decent Work Agenda in 1999 to re-focus the ILO and make it relevant for the twenty-first century. Twelve years later, the concept of decent work is firmly established in the global debate and as an objective of national policy. It appears in many documents of the multilateral system, the G20 and national policy forums. It generates millions of Google hits. It is the subject of much academic research and debate. It is enshrined in several ILO Conventions and Declarations, and the international trade union movement introduced the annual Decent Work Day to campaign for workers' rights. Decent work is so ubiquitous in ILO documents that some cynics say, "Decent work is the answer, whatever the question!"

Will decent work survive the departure of the Director-General who coined the term and so successfully marketed it? Should it survive? The answer to the former question is one of the unknowns of realpolitik. The answer to the latter depends on the assessment of what decent work means and how it should evolve.

The decent work concept recalls, in two words, the values and commitments of the ILO Constitution and the Declaration of Philadelphia. This brevity comes at a price. It broadly expresses a vision about the world of work without explaining how to get there, allowing many people to support it; and thus explains its success as a value statement, and its weakness for guiding concrete policy.

The decent work concept recalls, in two words, the values and commitments of the ILO Constitution and the Declaration of Philadelphia

A vague concept with a clear message

Despite its generality, decent work is not trivial. It emphasizes the importance of work in people's lives, independence and dignity. It gives equal recognition to all workers and underlines work as the source of value creation, rejecting ideological and class-based concepts like entrepreneurship, where the rich single out a specific form of work as superior to others, and implicitly diminish the contribution of teachers, bricklayers, doctors, waste-pickers, designers or caregivers to wealth creation. Decent work includes the millions of workers outside the formal economy and demands decent living conditions for all who work, as well as for those who should not work or who cannot find adequate work. It embodies the concept of workers' rights, social security, quality employment and collective representation of workers.

Decent work includes the millions of workers outside the formal economy

The early vagueness of the concept can be justified on three accounts. First, developing a comprehensive concept takes time. Second, it should be developed through a broad deliberative process. Finally, the late 1990s saw the high tide of neoliberalism, when any scepticism towards free trade, free markets and the virtues of entrepreneurship was branded as either "loony left" or as hopelessly old fashioned. The best the world could hope for then was Blairite third-way neoliberalism.

Whatever the reasons, there can be little doubt that the ILO gave priority to promoting decent work in the political arena, but underinvested in developing concrete policies to promote its vision. "Decent work 2.0" has to deliver in this respect, if the concept is to survive.

Times have changed! Unfettered entrepreneurship has ruined our economies, global free capital markets are no longer part of the solution but part of the problem, and the Occupy Wall Street movement shows that people are fed up with a system that demands that 99 per cent of the population work harder to make 1 per cent of it richer. Reining in financial markets, building a fair trading system, restoring state capacity to tax and provide quality public services as well as limiting socially harmful forms of market power and competition must be key elements of the resurrection of democratic governance.

Limiting economic power – A precondition for democracy

Democracy will only survive if elected officials can make policy decisions without merely subordinating their people to the Darwinian logic of a global race to the bottom. Instead of improving democratic control on markets, European leaders seemed to be driven by markets and saw no alternative but forcing the Greek Prime Minister to abandon the idea of giving his people an opportunity to decide the destiny of their country through a democratic referendum. If there "really are no alternatives", what is the point of having a vote? People, not market power, must determine government policy and choices. This requires a global regulatory framework that limits capital freedom and supports sustainable development, social justice and greater equality, respecting and strengthening the policy space for democratic decision-making at national level. International labour standards that address the needs of all working people and that provide a minimum floor of guaranteed substantive social and labour rights are the most important contribution of the ILO to this process.

The recent focus on core labour standards, as defined in the 1998 Declaration of Fundamental Principles and Rights at Work, gave greater visibility and human rights status to the elimination of child labour, forced labour, discrimination and the right to associate freely and bargain collectively. But neoliberalism plus core labour standards falls far short of the initial aspiration of the ILO that labour standards should guarantee substantive minimum levels of protection internationally in order to support the efforts of national labour movements and societies to achieve higher wages, shorter working hours, greater workplace security, full employment, industrial democracy and equality. More urgently, it falls short of what is needed to prevent a potentially deflationary downward spiral of working conditions in today's crisis.

To this day, the existing framework for labour standard adoption, ratification, implementation and supervision has not delivered the expected results. An open discussion should start on how to overcome the prisoner's dilemma of the current international labour standard setting mechanism, which has seriously limited its effectiveness: all governments would be better off, if they agree to cooperate, but each country fears a competitive disadvantage if it ratifies first.

International labour standards – Some suggestions for greater effectiveness

The ILO has argued for decades that this fear is unjustified, that standards help to ensure social peace and reduce transaction and information costs in societies. Labour standards contribute to dynamic economic efficiency, the violation of workers' rights does not result in better trade performance, there is no trade-off between higher expenditure for social protection and economic growth, and countries with liberalized labour markets such as the United Kingdom and the United States are out-competed by countries with higher labour standards such as Austria, Germany, the Netherlands and Sweden. The Gini coefficient is lower in countries that ensure workers' rights, and labour market institutions are crucial to reduce inequality and ensure shared productivity gains between capital and labour. In short, the ILO has presented standards as win–win instruments for everybody.

Despite the evidence for the positive or neutral economic impact of well-designed labour standards, the ILO has not achieved widespread ratification of its Conventions. It has failed in this because it answered the wrong question. Labour standards are ultimately not contested because of overall economic performance, but rather because of their distributional outcomes and their potential to empower working people. Labour standards contribute to the common good of social justice, equality and industrial democracy by not allowing for beggar-thy-neighbour policies, providing basic income security and social services to all, limiting the freedom of reckless employers and depriving them of the pleasure of unlimited power vis-à-vis their underlings. Labour standards also change the balance of power in societies. Inevitably, some lose power. Discussing economic efficiency without mentioning power is convenient for consensual policy statements, but fails to address the key factor that determines the application of labour standards: it is not the economy, stupid, but power.

A meaningful debate on the future of standards cannot limit itself to basic human rights on the one hand, and economic efficiency on the other. It needs to say upfront what labour market regulation is primarily about: building inclusive and democratic societies by countering the economic power of capital through legal rights and entitlements of working people. In order to achieve this, core labour standards need to be complemented with substantive positive rights such as minimum wage, working time, maternity protection and social security.

The ILO is not leading the intellectual and conceptual debate on the future of labour standards. Nor is it providing sufficient innovative ideas to ensure that labour standards fulfil their purpose. Maintaining the existing supervisory machinery is important, but not enough. Some simple steps to improve effectiveness could be:

- obligatory, regular public hearings in non-ratifying countries with parliamentarians from ratifying countries to promote ratification;
- consolidation and modernization of existing labour standards without undermining existing levels of protection;
- financial obligations for governments that fail to consider ratification or implementation of conventions;
- a global fund to help governments ratify and implement labour standards;
- assessing the policy advice of other international organizations and government policies against the objective of social justice as defined through labour standards;

- measuring decent work and providing internationally comparable country data about progress in levels of social protection and labour rights; and
- a decent work label for countries that have ratified and implemented an internationally agreed package of relevant labour standards.

Markets need to be governed; otherwise they govern us. The need for international rules and safeguards is more apparent than ever after the visible disaster of the belief in the invisible hand. Realizing the potential of international labour standards is the challenging task and opportunity of Decent work 2.0. The vision requires effective universal rules and standards to become a reality. The "cautious realists" maintain that this dream, in today's world, is unrealistic. For the conservative Utopians of the permanent status quo, change never has a chance. But if the future of decent work is the question, cautious realism is not the answer.

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Working for a social protection floor

Andreas Bodemer and Ellen Ehmke

Worldwide, 75 per cent of the population have no or insufficient access to social security provision. Despite the long record of social security as a human right, which is enshrined in the Universal Declaration of Human Rights (Articles 22 and 25) and the International Covenant on Economic, Social and Cultural Rights (Article 9), its implementation has been widely disregarded. Many pretexts have been given to excuse this severe injustice. Prominently, the competitiveness of a globalized economy has allegedly caused a scarcity of financial resources available for social policies. On the one hand, the assumed negative effects of social security on economic growth have served as reason to cut back globally. On the other hand, during and after the economic crisis of 2009–10 many observers confirmed the benefits of the wide-ranging use of existing social security structures.

Growing recognition of the need for social security

Amidst these contestations, the need to extend social security receives growing recognition among some national governments and in international forums.[1] This could be seen during 2011's International Labour Conference (ILC), when delegates from nearly all countries – workers, employers and government representatives – reaffirmed that social security is a basic human right and a prerequisite for social and economic development. To facilitate such an extension the delegates initiated a process which should lead to an ILO Recommendation on social protection floors, to be discussed at the next ILC in 2012.

According to 2011's ILC delegates, the Recommendation should provide guidance to Member States to develop social security extension strategies that enlarge the number of people covered (horizontal extension) and thereby establish national social protection floors. This should be combined with the encouragement to reach progressively higher levels of protection (vertical extension) guided by the up-to-date ILO social security standards, above all the Social Security (Minimum Standards) Convention, 1952 (No. 102). The four key elements of the social protection floor should be nationally defined minimum levels of protection before, during and after working life, including child and unemploy-ment benefits and pensions, as well as access to essential health care. The ILC furthermore strengthened the mandate of the ILO as the international body in which this issue should be discussed and decided upon.

Contested contents of new ILO Recommendation

While the formal proceedings are certain and an agreement could be reached on the envisaged components of the floors, many other questions are still open for discussion. During the ILC debates the worker representatives raised a number of points that should be included in the Recommendation, such as the "definitions of the general principles of social security including, inter alia, a rights-based approach, adequate benefits, universality, resource pooling, collective financing, sound financial governance ... guidelines on the content of the Social Protection Floor … recognizing the UN concepts of access to essential services (water, sanitation, health, education), and a basic set of essential social transfers".[2]

Yet, many of these issues raised by workers – such as the adequacy of benefit levels, whether or not the benefits should be universal, the extent of involvement of the social partners, the definition of targets for progress (defined time periods and growth of percentage of population covered) – are contested, on a national as well as an international level.

Challenges for worker organizations

Worker organizations can play a key role in defining, implementing, monitoring and enforcing social protection policies. Therefore, it will be crucial that they get active and mobilize on all levels in the run-up to the ILC in June 2012, to ensure that the Recommendation provides clear guidance on design, funding, governance and a timeframe for the implementation of social protection floors. In doing so the labour movement faces a number of challenges but there are also opportunities ahead.

Worker organizations can play a key role in […] social protection policies

A first challenge is connected to financing social protection. Despite other claims, ILO research has been essential in establishing that "No society is too poor to share."[3] And indeed: studies show that countries with similar levels of government expenditure (in proportion to the GDP) spend significantly different proportions of their (often small) budgets on social security. According to ILO studies, "packages" of basic social transfers (excluding health care) can be provided at the level of 2–5 per cent of GDP. Even for poorest countries such as Burkina Faso, Ethiopia and Nepal it has been shown that it is possible to provide elements of such "packages" like (modest) universal basic pension schemes at the cost of between 1.0–1.5 per cent of GDP.[4] In Brazil the conditional cash transfer programme Bolsa Família covers 46 million people at a cost of only 0.4 per cent of GDP. Investments in social protection are, hence, a matter of political choices and of the ability to implement these amidst varying power constellations, rather than determined by the unavailability of fiscal resources. The labour movement plays a key role in making these choices visible, and conclusively in reversing them where they fail to make social security for all reality.

Investments in social protection are […] a matter of political choices

A second challenge is the representation of the unorganized. But thinking beyond core membership and developing an encompassing vision of social security is an opportunity for trade unionists to overcome the insider-outsider problem. The debates around the ILO Domestic Workers Convention, 2011 (No. 189), showed that, with considerable efforts from all sides, it is possible to bridge a potential divide between informal and formal workers and create a united workers group. In the process for the proposed Recommendation on social protection floors, formal sector workers will need to engage with those working informally, to understand and take up their social security needs. Established worker organizations should use their position in consultation and decision-making bodies to lobby for the social protection of and together with the hitherto uncovered and unorganized. Overcoming the insider-outsider problem will be important in building strong civic coalitions that can counter attempts by private interest groups that seek to capture public policies, or prevent necessary policy change. For such coalitions it will be important that trade unions themselves are not perceived as a group with clientelist interests. Even if some workers may fear that a social protection floor will erode existing levels of social protection, the response to defend benefits for insiders at the costs of outsiders is not viable in the long run. Going beyond the needs of today's members is a tough challenge, but can be rewarding when it opens up room for new members and overall stronger worker representation.

Social protection is more than poverty alleviation

On a global level, workers are confronted with a third challenge. The debate on the cushioning of the negative effects of the current globalized economic order has been focused on the eradication of extreme poverty. Although this focus might seem pragmatic, it is reductionist. It typically lacks the analysis of the multidimensionality of poverty and focuses on "lifting" people above an internationally set poverty line.

But the concept of social security as presented by worker representatives in the ILC and elsewhere goes beyond poverty alleviation or human capital investment. The International Trade Union Confederation has already called for "social protection floor[s] set at a level above the poverty line, and sufficient to provide reasonable living standards".[5] Social security is a need for all those who cannot or should not work, i.e. children, women in maternity, the ill, the aged and the disabled. And equally for the working age able-bodied who are hit by un- or underemployment, low productivity or hazardous employment that constrains them from leading a decent life. Social security is about the creation of an environment in which each individual can develop to her or his full potential, ultimately free from hunger, want and disease. It is about life and work in dignity for everyone. Worker organizations can use the debate around the new ILO Recommendation to challenge the dominant minimalist approach.

Overall, the global and national debates about social protection floors offer an opportunity for the labour movement to be a prominent part of a broader popular movement to put pressure on governments to incorporate social protection provision as well as corresponding equitable employment and economic policies into national politics.

Notes

[1] ILO: *Social Protection Floor for a fair and inclusive globalization*. Report of the Advisory Group chaired by Michelle Bachelet (Geneva, 2011).

[2] More information on the debates on the Recommendation can be found in the *Report of the Committee for the Recurrent Discussion on Social Protection* (Geneva, 2011, at http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_157820.pdf).

[3] ILO: *Social security for all: Investing in social justice and economic development* (Geneva, 2011, p. 13).

[4] ILO: *Can low-income countries afford basic social security?* (Geneva, 2008).

[5] International Trade Union Confederation: 2nd World Congress, *Resolution on extending social protection and ensuring good occupational health and safety* (Vancouver, June 2010).

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Trade union reform and labour legislation in China: An interview with two labour activists

Elaine Sio-ieng Hui

A wave of workers' resistance swept China in 2010, with suicides by some Foxconn (multinational electronics manufacturer) workers, and a large workers' strike at Honda drawing immense social attention, local and global alike. This compelled the Chinese Government to come up with some new policy initiatives to contain the labour unrest, including trade union reform and collective bargaining legislation. Given these labour reforms a few questions arise:

- Where is this labour reform heading to?
- What are the crucial factors that can make workers benefit from this reform?
- Can the party-led state trade unions be transformed to serve workers' interests?

In an interview conducted in March 2011, Monina Wong, the Director of the International Trade Union Confederation/Global Union Federation Hong Kong Liaison Office[1] (IHLO), and Parry Leung, Chairperson of Students and Scholars Against Corporate Misbehavior[2] (SACOM), shared their viewpoints on these issues, based on their conversations with workers.

Elaine Sio-ieng Hui [E]: *What kinds of labour issues have been raised by the series of workers' suicides in Foxconn in 2010?*

Parry Leung [P]: Although it hardly violates any laws, Foxconn, a supplier to many global electronic brands, has a highly oppressive production regime under which workers have no means at all to voice their discontent. They felt so desperate that they resorted to suicide as a silent demonstration of their defiance. My observation is that no matter how much internal migrant workers from the rural areas have been exploited in urban factories, in general they still have room, however little it is, to show their resistance, for example, by means of strikes, road blockades and so forth. But in Foxconn this is not possible. It does not only strictly control the production process in factories, but also the private life of workers. For instance, all workers must stay in the dormitory provided by the company, but those coming from the same home province or working in the same production line are not allowed to share a dormitory room; this is a tactic to prevent the building up of rapport and support among workers. Another example of Foxconn's infringements on workers' private lives is that all calls from the dormitory to the police hotline in the city will be automatically diverted to the security station in the dormitory. Foxconn has formed a small kingdom of its own which is basically not subject to outside interference.

E: *The Honda workers' strike in 2010, which lasted for 17 days and involved over 1,800 workers demanding a wage increase, is seen as the beginning of a new stage of labour resistance in China. What are its implications for labour relations in China?*

Monina Wong [M]: This strike ended with a 32.4 per cent wage increase for the Honda workers, who demonstrated a high level of consciousness concerning their positions in production and are aware of the serious impact of their strike on the overall production of the enterprise. They have also manifested a clear consciousness regarding the proper function of trade unions; they were exasperated when they found that the enterprise trade union was on the side of the management, instead of supporting the strikers. In past decades, we used to treat Chinese migrant workers as exploited objects that needed outside help to protect them. But now we see that they are active agents who have the labour consciousness needed to advance their interests with collective means. And so far, the Honda workers' strike is the most effective and powerful strike launched by migrant workers, capable of upsetting the regional production of a transnational company.

The Honda workers' strike is the most effective and powerful strike launched by migrant workers

The physical confrontation between trade union officials (who leaned towards management) and workers during the strike has triggered immense social discussion on the proper role of the Chinese trade unions. After the strike, the official party-led All China Federation of Trade Unions (ACFTU) and the Government tried to alleviate labour discontent by speeding up the pace of trade union reform and by introducing collective bargaining legislation. It is good that these two issues have become the agenda of the ACFTU. However, at present most trade union education, if there is any, is solely conducted by the ACFTU while other relatively independent agents (e.g. international trade unions and labour NGOs) have no role to play in the process. The degree of democracy and accountability available to members inside trade unions and the ACFTU at the moment is still at a low level.

Therefore, we need relatively independent trade union education among trade union officers so as to ensure the effective and genuine implementation of trade union reform and the collective bargaining mechanism.

E: *Recently the Chinese Government and the ACFTU were promoting legislation on collective bargaining. In your opinion, what are the driving forces for that?*

M: In 2004, the Government attempted to build up a workplace collective bargaining mechanism by means of ministerial regulations issued by the Labour and Social Security Bureau, but it was not very effective as not many enterprises followed the instructions. In 2005, the ACFTU started to unionize the Fortune 500 corporations in China. Subsequently, trade unions were established in Wal-Mart and many other foreign enterprises, but many people know that they are paper unions only and that the collective contracts they signed with the enterprises remain a formality.

After the world economic crisis broke out in 2008, many enterprises in the Pearl River delta have been shut down. The central government and many local governments realized that the country's economy could no longer depend entirely on export-oriented industries and that it had to develop a consumption-based economy. It is in this context that the ACFTU and the Government have again picked up momentum to push forward collective bargaining legislation, which they hope will lead to better wages, and thus to higher consumption by workers. It is also hoped that such measures can help reduce labour unrest and maintain political stability.

P: The legislation on collective bargaining is related to the waves of labour resistance occurring in the country, especially in south China, in the past decades. The Government is aware of the increasingly intense labour discontent, which it has been trying to alleviate with an individualized legal approach; this explains why the Labour Contract Law and the Labour Dispute Mediation and Arbitration Law focusing on individual legal rights were passed in 2008. However, after the world economic crisis broke out in 2008, it has become evident that this individualized legal approach no longer works. On the one hand, the number of labour disputes increased dramatically at the time, and the fact that so many workers went for arbitration led to the overburdening of courts; workers had to wait, on average, for nine months to have their claims dealt with. On the other hand, many of the labour disputes are beyond the scope of existing laws, and thus could not be effectively settled by the court. Since the individualized legal approach cannot properly handle workers' grievances, many workers resort to collective means, such as strikes and road blockades, to defend their interests. In order to pre-empt labour unrest and prevent it from erupting into social rebellion, the government is trying to absorb workers' discontent through the use of collective bargaining.

Although the proposed collective bargaining legislation has given some room for the collective organizations of workers, it remains constraining in some areas. For example, the proposed legislation only allows workers to negotiate certain items (such as wages, working hours and welfare) with employers. Besides, collective bargaining can only be carried out by the trade unions, despite the fact that many trade union officers are appointed by the enterprises or by higher-level trade unions; workers are not allowed to elect their own representatives for bargaining. The Government is trying to eradicate factors that can cause social unrest through developing collective bargaining legislation; it tries to divert aggrieved workers from open resistance to the bargaining procedures. And, most importantly, it has delegated the party-led trade unions to take charge of the bargaining so as to ensure everything is within its control.

E: *What is the role of party-led trade unions in promoting the collective bargaining mechanism?*

M: A genuine collective bargaining system should include the process of consulting their members before trade unions negotiate with employers. However, in China, a top-down approach has been used by the ACFTU. It is a common practice for it to send invitations for collective negotiations to employers and to reach agreements without informing or consulting its members. Democratic participation is a process to educate workers about true unionism. But "negotiation" in China is usually ends-oriented and the ends (e.g. the wage increment) should not contradict the conditions of the "larger context". Priority to the "larger context", according to the Party and the Government's definition, results in "negotiations" led by the administration, not workers. In view of this, in order to build up a genuine collective bargaining system in China, trade unions should initiate a proper reform first, enabling democratic and grass-roots participation, so that they can truly represent workers' interests. At the moment, there are many "fake" trade unions at the enterprise level; to tackle this problem, it is very crucial that workers' trade union consciousness be cultivated properly, so that they understand the importance of having their trade union representatives being able to represent their interests and be accountable to them. A very critical foundation for achieving this is to make trade unions financially independent from the companies or the government. In the past, most enterprise trade union officials were paid by the enterprises, while the current trend is that the government pays their salaries. Neither of these practices is ideal; they will either make the enterprise trade unions a management-union or a party-union.

A postscript to the interview

This interview was done on 10 March 2011. After almost a year, Regulations on the Democratic Management of Enterprises and the Shenzhen Collective Consultation Ordinance have been put on hold because many overseas business chambers strongly opposed the two pieces of legislation. In Hong Kong, China, over 40 business associations published their petition in newspapers and some of their representatives paid official visits to the Guangdong and the central government to reflect their concerns (*Sing Tao News*, 27 September 2010; *Ming Pao*, 10 September 2010). And a Chinese legal scholar who has been consulted by the Shenzhen government on many labour regulations revealed that many foreign investments are opposed to the collective bargaining legislation in south China.

On 2 January 2012, 300 workers from Foxconn in Wuhan tried to force the Taiwanese-owned global manufacturer to raise wages by threatening to commit mass suicide (*HuffPost Tech*, 15 January 2012). And recently Apple has allowed the Fair Labor Association (FLA) to audit Foxconn's factories in China. However, some labour NGOs, such as the GoodElectronics Network and SACOM, have pointed out that the FLA's audit was not carried out in a proper manner, as Foxconn was informed of the investigation in advance, which is contrary to the usual practice of unannounced audits. As a result, Foxconn has been able to hide its abuses by, for example, arranging for under-age workers to be off-duty during the FLA's investigation (see http://goodelectronics.org/).

It seems that Chinese workers are still working under poor conditions and their basic rights are still unprotected. Labour reform in China, if there is any, still has a long way to go.

Labour reform in China […] still has a long way to go

Notes

[1] The IHLO is the Hong Kong Liaison Office of the international trade union movement, which has a mandate to support and represent the international trade union movement in Hong Kong, China, and to monitor trade union and workers' rights and political and social developments in China. Readers can learn more about it from its website (http://www.ihlo.org/).

[2] SACOM aims at bringing concerned students, scholars, labour activists and consumers together to monitor corporate behaviour and to advocate for workers' rights. It teams up with labour NGOs to provide in-factory training to workers in south China. Readers can learn more about it from its website (http://sacom.hk/mission).

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Global labour online campaigns: The next ten years

Eric Lee

In November 2011, the military dictatorship in Fiji jailed two of the country's most prominent trade union leaders. Following the launch of an online campaign sponsored by the International Trade Union Confederation and run on the LabourStart website, some 4,000 messages of protest were sent in less than 24 hours. The Government relented, the union leaders were freed and the campaign was suspended. A month earlier in India, locked out Suzuki workers waged a successful online campaign through the International Metalworkers Federation (IMF) and LabourStart. Almost 7,000 messages flooded the company's inboxes, and, after only a few days, a compromise was reached.

The spectacular success of those campaigns is the culmination of a decade-long process of building up the campaigning capacity of the international trade union movement – specifically that of the ITUC and the global union federations (such as the IMF), and the role played by LabourStart in that process.

This short essay focuses on the rather narrow topic of global online labour campaigning, to see where we have been, where we are now, and to speculate about where we go next.

The global labour movement has been doing online campaigning for a quarter of a century now. The first international trade secretariats (now called global union federations or GUFs) went online in the 1980s and have been campaigning ever since. For about a decade now, we have campaigned using a combination of mass emailing and web-based tools mostly modelled on successful campaigning websites such as Avaaz, MoveOn (United States) and 38 Degrees (United Kingdom).

The global labour movement has been doing online campaigning for a quarter of a century

Today, the ITUC and GUFs tend to campaign using either LabourStart or a system similar to (and based on) LabourStart's custom-built software and model. As a result of this, LabourStart's mailing lists have grown steadily, from just a couple of thousand a decade ago to more than 80,000 today. Those mailing lists of trade union activists are at the heart of online labour campaigning today. They are what allow us to deliver 4,000 protest messages in 24 hours, as was done with Fiji.

But the potential is much greater than this. The ITUC, for example, claims to represent 175 million workers in more than 150 countries. The 80,000 names of activists on LabourStart's lists are a tiny fraction of that number – not even half of one per cent. Other campaigning organizations, which have grown up out of nowhere with no built-in membership base like trade unions, have much larger audiences. For example, Avaaz claims over 10,300,000 supporters worldwide; the United Kingdom's 38 Degrees website claims 800,000 supporters. Unions have been slow to pick up on the importance of online campaigning and as a result lag behind NGOs such as these.

The reasons why unions lag behind in the adoption of effective online campaigning technology are complicated, and vary from union to union and from country to country. As the widespread use of social networks like Facebook during the Arab Spring showed, there is no simple North–South divide here. Some of the most powerful unions in some of the richest countries use the net poorly. And there have been extremely effective net-based campaigns run by unions in places such as Brazil and the Republic of Korea. The global trade union movement is already experiencing the problems of campaign fatigue and information overload. There is a fear that the campaigning model which has worked well for a decade, may be faltering. And there are questions about what comes next.

What comes next?

One noticeable trend is a growth in the number of languages we campaign in. For example, in a campaign launched in November 2011 in support of locked-out Turkish metal workers, LabourStart produced versions in 13 languages (Avaaz works in 14 languages). This is a far cry from the days when unions would publish online in just English, French and Spanish. Almost all the LabourStart campaigns now appear in Arabic, Chinese, Japanese, Russian and Turkish – hugely important languages for the international trade union movement but ones which a decade ago were rarely seen on global labour websites. We can expect in the next decade to see even more languages used – especially the languages of countries with growing industrial working classes – Bahasia Indonesia, Korean, Portuguese, Tagalog, Thai and Vietnamese. A decade from now, it will not be unusual to see online campaigns running in dozens of languages.

The more sophisticated (and well-funded) civil society campaigners are increasingly targeting their campaigns, rather than creating one-size-fits-all versions. If you've shown interest in a particular subject, or come from a specific country, or speak a certain language, you can be targeted for campaigns you are most likely to show interest in. You can be approached for follow-up campaigns, as we know from experience that one campaign alone rarely solves long-running and difficult issues. At the very least, we will see the creation of extensive databases showing who has supported which campaigns, and global unions will be able to use these to build networks of activists focused on specific subjects or regions.

How campaigns are created is also likely to change over the next decade. It's an oversimplification to say this, but basically we've moved through two phases in the past ten years. In the first period, LabourStart would approach the ITUC (and its predecessor, the ICFTU) and the GUFs and suggest an online component to their traditional offline campaigns. But in recent years, it's been the other way around, with GUFs especially coming to LabourStart with an increasing number of campaigns that need to be promoted online. As the number of campaigns being proposed grows, increasingly there are issues about prioritizing – and even turning down some requests.

A third phase could include the involvement of the campaign supporters themselves in the process – something which is already done by 38 Degrees. When there are competing issues demanding our attention, we can allow supporters to vote online for the campaigns that deserve promotion. This is admittedly quite a radical idea and one foreign to the traditions of most trade unions. Usually union campaigns are decided upon in head offices, not by a vote on the shop-floor. Nevertheless, it seems likely that we will need to move in the direction of grassroots, democratic decision-making – and not only because it offers a solution to the problem of prioritization. It also gives participants in the campaigns a sense of ownership, which is important as well.

The model for today's global online labour campaigns remains very PC-centric. We imagine thousands of trade unionists working in offices, sitting at their desks reading emails, clicking on a link, opening a website and filling in a form. But a decade from now, and to a certain degree even today, this is not how people will work. A significant percentage of those now learning about a global labour campaign via email are reading that email on a smartphone. If they click on a link in the message, the website that displays must render correctly on a very small screen, and the entering of data such as one's name and email address must be as simple and easy as possible. Few unions have taken this into account, but it will be essential in the years to come.

As a result, it is likely that we will see the rise of small-screen-specific campaigning apps for trade unions. These apps will need to be platform-independent, able to work on all kinds of phones and tablets. And, of course, the model of email messages pointing to websites is itself fading, as more and more people come to use social networks such as Twitter and Facebook for online communication. Among young people, studies show a declining use of email and an increasing reliance on other tools, including BlackBerry Messenger (BBM) and SMS.

Unions need to take this into account when deciding how to promote their campaigns, and it's likely that a decade from now they will need to use simultaneously a wide range of media – including social networks and instant messaging – to reach their members and supporters. Email is likely to remain part of that package, but can no longer be the only way to get the word out.

A decade from now we will probably discover other things online protest campaigns can do beyond filling up the inbox of employers and governments with protest messages. It's likely that we'll continue to do that, but we need to find other ways of putting pressure on governments and employers to respect workers' rights. One of the traditional trade union tools that has been underutilized in recent years has been the boycott – and its opposite, the "buy union" campaigns. Both can be done more effectively online and at a fraction of the cost of old-fashioned offline versions. In a hyper-competitive market, if unions can cause a tiny fraction of sales to fall for one company, and to rise for another, this might give us the leverage that we never had in the past. And beyond using our power as consumers to reward and punish companies, we can be inspired by the example of the Arab Spring and consider the possibility of using online campaigns not only to apply pressure online, but as a tool to bring people onto the streets.

We can [...] consider the possibility of using online campaigns [...] to bring people onto the streets

A decade from now global unions will still campaign online, but they will do so in ways radically different from how we work today – and the result will be more powerful and effective trade unions. But to achieve that, we must be open to new ideas and new ways of working.

Eric Lee is the founding editor of LabourStart, the news and campaigning website of the international trade union movement.

PART IV

Looking ahead

Seven reasons why a universal income makes sense in middle-income countries

Hein Marais

Is job creation really the best way to seek well-being for all in countries with chronic, high unemployment? No – especially not in a wealthy middle-income country like South Africa, where very high unemployment combines with high poverty rates. Here are seven reasons why a universal income grant makes more sense.

1. Earning a decent secure wage is not a prospect for millions of South Africans

While the rewards of South Africa's modest economic growth are cornered in small sections of society, close to half the population lives in poverty and income inequality is wider than ever before.

Job creation improved modestly as economic growth accelerated in the early 2000s. About 3 million "employment opportunities" were created in 2002–08. The semantics are important. Very many of those "opportunities" did not merit being called "jobs". They divided roughly equally between the formal and informal sectors, and occurred mainly via public works programmes, business services, and the wholesale and retail trade sectors. A lot of them were crummy, insecure and poorly paid.

The average unemployment rate for middle-income countries is in the 5–10 per cent range; in South Africa it is about 25 per cent. Add workers who have given up looking for jobs, and the actual rate sits around the 35 per cent mark. Since late 2008, the private sector has been shedding jobs, and the public sector has been trying to add new ones. It's an endless game of catch-up.

2. Having a job does not automatically shield against poverty

Having waged work is the single most important factor deciding whether or not a household will be poor. But earning a wage does not guarantee that you won't be poor. Vast numbers of workers earn wages so low and on such poor terms that their jobs don't shield them against poverty. Increasingly that applies

Vast numbers of workers earn wages so low and on such poor terms that their jobs don't shield them against poverty

also to formal sector jobs. Almost one-fifth (some 1.4 million) of formal sector workers earned less than 1,000 rand (US$125) a month in the mid-2000s, according to Statistics South Africa data. Two factors drive these trends: the shift towards the use of casual and outsourced labour, and the related decline in real wages for low-skilled workers.

The average real wage is being propped up by the improved fortunes of comparatively small numbers of high-skilled, high-wage workers. Workers without tertiary qualifications lost about 20 per cent of their average real wage. And women in the formal sector earned less in real and relative terms in 2005, compared with 1995.

From the late 1970s into the 1990s, South African companies tried to compete and maintain profit levels by upgrading machinery and introducing new technologies to achieve higher productivity and reduce reliance on militant, organized workers. Eventually the dividends dwindled, and currency crashes since the mid-1990s inflated the cost of imported technology.

The hunt for profit required another squeeze, and it was applied to the wages and terms of employment of workers who were not shielded sufficiently by labour laws and shop-floor organizing. Company profits as a share of national income rose from 26 per cent in 1993 to 31 per cent in 2004, while workers' wages fell from 57 per cent to 52 per cent.

Companies now rely on a shrinking core of skilled, full-time workers and a larger stock of less-skilled and badly paid casual or outsourced labour. By 2008, according to the Labour Ministry, about half the workforce was in casual and temporary jobs.

Job creation is vital. But it's not a match-winner any more – not in the kind of economy and labour market that defines South Africa. The quest for more – and better – jobs has to occur as part of the wider realization of social rights.

3. Social grants separate millions from destitution but it is ill-suited to today's realities

The impact of the social grant system is beyond dispute. According to Statistics South Africa, the increase in incomes among the poorest 30 per cent of South Africans after 2001 was mainly due to social grants (especially the child support grant). They're the best poverty-alleviating tool South Africa has at the moment.

Beneficiaries rose radically since 2000. The 2.6 million recipients of pensions and social grants increased to about 14 million in 2010. About 43 per cent of households in 2007 received at least one social grant; in half of them, pensions or grants were the main sources of income. A large proportion of low-income households would probably be unviable without these grants.

The current social protection system hinges on the fiction that every worker, sooner or later, will find a decent job. Thus the grants were designed to assist people who, due to age or disability, cannot reasonably be expected to fend for themselves by selling their labour. Meanwhile, the employed have access to employer- and worker-subsidized protection (all tied to employment status). But large numbers of vulnerable workers are not eligible for these state grants and do not benefit from employment-based provisions.

4. Targeted and means-tested social protection is burdensome, costly and humiliating administration

Most states prefer to ration cash grants by targeting them and tying them to certain conditions. South Africa is no different (though only the child support grant is nominally conditional at this point). This is administratively expensive, and it tends to be difficult, especially when it is tough to determine an individual's income, and when that income is likely to fluctuate significantly. It runs the risk of creating arbitrary divides between those who benefit from social grants and those who do not. Which is why critics regard the approach as expensive, inefficient and "offensive to basic egalitarian principles", as Guy Standing puts it.

Most means-tested social grants involve burdensome and humiliating interactions with the state that basically involve "proving" to a stranger that you're poor and unable to fend for yourself and your family. This is why huge stigma and shame tend to attach to them.

A universal income grant would be available to all adult citizens, and would be neither conditional, nor targeted or means-tested. The tax system would be used to retrieve (and help finance) the grants from individuals who don't need them because their incomes are high enough. The grants would form a cornerstone of a broader social protection system.

5. A universal income is developmental and would boost well-being

Cash transfers bring powerful anti-poverty, developmental and economic benefits. The observed effects include reduced stunting in children and better nutrition levels, and higher school enrolment of young children. In a localized, universal income pilot project in Namibia, child malnutrition declined and school attendance increased significantly within six months. Recipients also became more active in income-generating activities.

Financial simulations have shown that a universal grant as small as 100 rand (US$12) per month could close South Africa's poverty gap by 74 per cent,[1] and lift about six million people above a poverty line of 400 rand (US$50) per month. Cash grants can also help drive more inclusive patterns of growth. Brazil's expansion of social transfers (especially via the Bolsa Família, a conditional grant) along with the extension of the minimum wage has boosted internal demand for local products and services, and aided the growth of formal jobs, as Janine Berg shows in a recent paper.[2]

A universal grant as small as 100 rand (US$12) per month could close South Africa's poverty gap by 74 per cent

6. A universal income can be a powerful emancipatory tool, especially for workers

Cash grants contain a radical, emancipating potential. The key is to uncouple them from the labour market, which a universal income grant can achieve. This is a potentially radical and subversive turn that confronts the "double separation" that is typically imposed on workers – separation from the means of production and from the means of subsistence.

The impact potentially reaches much further than gains in social justice. A universal income has the potential to improve the wages and terms of employment for low-skilled workers. If the bare necessities of life can be secured elsewhere, demeaning and hyper-exploitative wage labour is no longer the "only option". Its most subversive effect is to equip people with the freedom not to sell their labour and to withdraw, at least sporadically, from the "race to the bottom" between low-skilled workers in high unemployment settings.

Thus a universal income can endow the weakest with bargaining power. Linked with other efforts to strengthen well-being and expand the content of citizenship, it can contribute toward significant redistribution of power, time and liberty. It also challenges one of the anchoring principles of Anglo-capitalism, which binds employment and citizenship together.

7. A universal income treats women as citizens, not merely as caregivers and bearers of children

Millions of women in South Africa have entered the labour market since the 1980s, despite their exceptionally poor job and wage prospects. Three-quarters of African women younger than 30 years are unemployed. Most who do find employment tend to work part time, for low wages and in highly exploitative conditions. Yet women also bear the bulk of responsibility for social reproduction, and they head more than 40 per cent of households, the majority of them single-parent, impoverished households.

Overall, the sexual division of labour in both the domestic sphere and labour market remains structured in ways that enable men to monopolize full-time and better paying jobs, while women perform most of the household labour. Men, whether employed or not, continue to "free ride" on women's work – paid or not.

A guaranteed universal income challenges these arrangements, by helping provide currently inaccessible economic independence, and by strengthening the negotiating position of women who do enter the labour market.

Conclusion

More jobs are vital and feasible. However, the quest for more jobs has to occur as part of a wider realization of social rights. A universal income grant would be a powerful intervention for radically reducing the depth and scale of impoverishment, and for enhancing liberty.

Notes

[1] The poverty gap refers to the total income shortfall of households living below the poverty line. A narrower poverty gap means more households would edge closer to, or above, the poverty line.

[2] Changes in labour market and social policies boosted consumption and economic growth in rural and poor areas, and created a steady demand for small retailers and service providers. That boost in demand also affected other parts of the value chain, including formal manufacturing and distribution. See J. Berg: *Laws or luck? Understanding rising formality in Brazil in the 2000s*, Working Paper No. 5 (Brazil, ILO, 2010).

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Economic democracy: An idea whose time has come, again?

Richard Hyman

"There can be no return to business as usual" – this was the unanimous trade union response to the global crisis. For a time in early 2009, the legitimacy of capitalism was itself questioned in unexpected quarters. In May 2009 the German union confederation, the Deutscher Gewerkschaftsbund, organized a "Capitalism Congress" – using language which for decades would have been taboo – and its president warned of unrest on the streets unless jobs were more effectively safeguarded. One of its leaders, Claus Matecki, insisted that it was important to talk of capitalism rather than using the conventional but bland term *soziale marktwirtschaft* (social market economy), since only thus could trade unionists make clear that the existing economic order was historically contingent and founded on a fundamental inequality between workers and employers.[1] Yet there was no follow-up.

Two familiar and intersecting contradictions of union action were evident across Europe. One was the dilemma of short-term imperatives versus long-term objectives. Was the aim to negotiate with those wielding political and economic power for damage limitation, and perhaps a tighter regulatory architecture for financialized capitalism; or to lead an oppositional movement for an alternative socio-economic order?

According to one Belgian socialist union leader, "The situation really is not simple for trade union organizations. The analysis of the crisis is not complicated: neoliberalism cannot deliver. The difficulty is that today, discourse is not enough. It is easy to say: we need to change the balance of forces. But that does not tell us how to proceed ... Our members expect us to look after their immediate interests."

The second contradiction was between a global economic crisis and trade union action which is essentially national or indeed sub-national in character. The international trade union organizations produced powerful analyses and progressive demands, but their impact on day-to-day trade union practice on the ground was non-existent. Indeed the dominant response has been to defend and enhance competitiveness, meaning a struggle of country against country, workplace against workplace, intensifying the downwards pressure on wages and conditions.

To these two contradictions must be added the loss of a vision of an alternative socio-economic order. Actually, "existing socialism" had discredited the idea of communism long before the fall of the Berlin Wall. Social democracy likewise abandoned the struggle for a new social order in the face of economic adversity, engaging in concession bargaining with multinational capital and the international financial institutions. Centre-left trade unionists came to object to the "new, over-mighty capitalism" of hedge funds, asset-stripping, financial speculation and astronomical bonuses. The solution, it appeared, was to seek to restore the old capitalism: the trade union movement should "become a champion of good business practices, of decent relations with decent employers while ruthlessly fighting the speculators".[2]

So has the crisis indeed been wasted? Perhaps one means of connecting short-term (and probably ineffectual) defence to a struggle for another world of work could be renewed attention to the idea of economic democracy. In the past two years, there has been much discussion of the deficiencies in existing systems of corporate governance, particularly as the liberalization of global financial transactions has made "shareholder value" the overriding corporate goal even in "coordinated" market economies.[3] The solution, however, cannot simply be a technocratic regulatory fix; what is required is democratic control of capital. With the shock of crisis, some union policy-makers have come to recognize that the overriding challenge is to build a movement for greater democratization of the economy and to create new links between different levels of regulation and different issues on the regulatory agenda.

The overriding challenge is to build a movement for greater democratization of the economy

Systems of "codetermination" are institutionalized in much of Europe, involving rights of collective representation through works councils, and in some countries employee board-level representation. Such provisions reflect an insistence that companies are not merely the private property of the shareholders, because employees are themselves "stakeholders" with a legitimate interest in shaping corporate goals and policies. Even the strongest systems of works councils, however, have primary jurisdiction over employment issues which arise only after key decisions on investment and product strategy have already been taken: as a German trade union expert noted two decades

The machinery of codetermination no longer provides an effective mechanism for asserting and defending workers' interests ago, the more strategic the issue for management, the weaker the powers of the councils.[4] This becomes particularly problematic in times of economic adversity, as primarily enterprise- or establishment-based mechanisms of codetermination are forced to accommodate to the externally imposed imperatives of intensified global competition, and may be unable to do more than underwrite managerial priorities. Though formally intact, the machinery of codetermination no longer provides an effective mechanism for asserting and defending workers' interests.[5] To address this erosion of effectiveness, "industrial democracy" must be extended to encompass corporate strategy as a whole: in other words, it must be enlarged into economic democracy.

Elements of such a strategy can be found in the ideas developed by Fritz Naphtali for the German trade unions in the 1920s,[6] which proved influential in the Austrian and German trade union movements in the early post-war years. Socialization of the economy was an essential goal, but it should be achieved, not necessarily and not exclusively through state ownership, but through more diverse forms of popular control. Such ideas helped inspire the demands of Swedish unions in the 1970s for "wage-earner funds", drafted by Rudolf Meidner (a socialist of German origin).[7] The essence of the policy was to establish collective employee ownership of part of the profits of corporate success, in the form of shares held in a fund under trade union control. This, it was envisaged, could provide increasing control over strategic decisions in the dominant private companies. As Meidner himself later conceded, a more flexible set of proposals would have been politically prudent; certainly in countries with far lower trade union density than in Sweden, tying control of collective funds to trade unions alone is not a viable strategy (particularly given past scandals involving union-owned enterprises in Austria and Germany). Nor could the Meidner plan easily function in an era of global financial markets. Nevertheless, some of its themes are particularly apposite at a time when the banking sector has been rescued by a vast transfer of public funds; democratization of ownership should be a logical corollary. Moreover, while the trade union movement has embraced the demand for a financial transactions tax, the question of its implementation has been little discussed. Why not use the revenue, not simply to plug the hole in national budgets, but to create investment funds under popular control, linked to a democratization of pension funds (which are, in effect, workers' deferred wages)? These are questions with which trade unionists should surely engage.

This theme leads to a broader question: what are the possibilities for economic democratization in the space between state and market? The labour movement has a long tradition of cooperative production and distribution, though in many countries such cooperatives mutated long ago into simple commercial ventures. But smaller-scale, cooperative economic activity has often been able to provide some counter-power to the commodification of social life, particularly in the global South. In a notable recognition of this role, the Self Employed Women's Association (SEWA) in India was accepted as a founding member of the ITUC.[8] Do such movements offer lessons for trade unions in the developed economies? In the French-speaking world at least, the notion of a "social economy" has received growing attention on the left.[9] An imaginative response to the crisis ought to draw on such ideas.

Can economic democracy and capitalism coexist? If the central dynamic of 21st-century capitalism involves vast concentrations of unaccountable private economic power – and this may well be the case – the answer is clearly no. You can peel an onion layer by layer, but you can't skin a tiger claw by claw... But a simple anti-capitalist response to the crisis is not on the current political agenda. To capture hearts and minds, the labour movement has to commence a campaign against global casino capitalism which is linked to a credible set of alternatives for socially accountable economic life. In the short term, perhaps, a campaign for "good capitalism" may be the only politically feasible option.[10] For the present, what is needed, in Gramsci's terms, is a "war of position". The idea of economic democracy offers a vision of popular empowerment which could reinvigorate trade unionism as a social movement and help launch a struggle for a genuinely alternative economy – one in which, incidentally, unions themselves would be more likely to thrive.

Notes

[1] C. Matecki: "Warum wir vom Kapitalismus reden", in *Der Freitag* (26 June 2009).

[2] J. Monks: *The challenge of the new capitalism*, Bevan Memorial Lecture (14 November 2006).

[3] See J. Peters: "The rise of finance and the decline of organised labour in the advanced capitalist countries", in *New Political Economy* (2011, Vol. 16, No. 1).

[4] U. Briefs: "Codetermination in the Federal Republic of Germany: An appraisal of a secular experience", in G. Széll, P. Blyton and C. Cornforth (eds): *The State, trade unions and self-management* (Berlin, de Gruyter, 1989).

[5] See W. Streeck: *Re-forming capitalism* (Oxford, OUP, 2009); H.-J. Urban: "Arbeitspolitik unter (Nach-) Krisenbedingungen: Gute Arbeit als Strategie", in *Arbeits- und Industriesoziologische Studien* (2011, Vol. 4, No. 1).

[6] F. Naphtali: *Wirtschaftsdemokratie: Ihr Wesen, Weg und Ziel* (Berlin, ADGB, 1928).

[7] R. Meidner: *Employee investment funds: An approach to collective capital formation* (London, Allen & Unwin, 1978).

[8] SEWA defines itself as both an organization and a movement for women workers on the margins of the formal economy. It has many of the characteristics of a trade union, an NGO and a cooperative (see http://www.sewa.org/About_Us.asp).

[9] J.-F. Draperi: *Comprendre l'économie sociale: Fondements et enjeux* (Paris, Dunod, 2007); J.-L. Laville (ed.): *L'économie solidaire: Une perspective internationale* (Paris, Hachette, 2007).

[10] S. Dullien, H. Herr and C. Kellermann: *Der gute Kapitalismus ... und was sich dafür nach der Krise ändern müsste* (Bielefeld, transcript Verlag, 2009).

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A tide of inequality: What can taxes and transfers achieve?

Malte Luebker[1]

Inequality is a top issue in the public agenda, partly as a result of the financial crisis that helped draw attention to this topic. As banks relied on the support of taxpayers and millions of workers had lost their jobs, people began to see the compensation of bank CEOs – with an average 2010 pay package of US$9.7 million in Europe and the US[2] – as obscene.

Those at the top of society have long captured the gains from economic growth. From 1970 to 2008, the annual incomes of the top 1 per cent of US taxpayers rose threefold in real terms from US$380,000 to US$1,140,000. By contrast, the incomes of the bottom 90 per cent remained where they were in 1970 – at US$31,500 per year (in real 2008 dollars).[3] Similar, if less extreme, developments can be observed in a range of countries.

Wages and labour markets

The top of the distribution is only part of a broader trend towards greater inequality. In the advanced countries, average wages grew by a mere 5.2 per cent in real terms over the 2000s and fell short of productivity gains. The subsequent redistribution from labour to capital income can be witnessed in dramatic declines in the labour share in countries such as Germany, where it has fallen by 3.9 percentage points per decade since 1991.[4] Since capital incomes are more concentrated than labour incomes, these shifts in the functional distribution of incomes have negative repercussions for income inequality between individuals.

The Luxembourg Income Study (LIS) confirms that rising inequality of market incomes has been the dominant trend in industrialized nations. Among the 19 economies where data are available for at least two points in time, 15 show increasing inequality. The long-run increase in market inequality is substantial in Australia, Finland, Germany, Israel, the United Kingdom and the United States.[5] Small declines in

Rising inequality of […] incomes has been the dominant trend in industrialized nations

Switzerland and Romania (which has only a short time series) and a larger fall in the Netherlands make for rare exceptions. The average increase in the Gini coefficient for private sector incomes was 0.28 points per year, or 2.8 points per decade.

Combating inequality: Some policy tools

Governments can rein in inequality through minimum wage legislation and collective bargaining rights to compress the primary distribution of incomes. But they can also focus on the secondary distribution of disposable incomes and use their tax and transfer systems to offset some of the inequality.

The redistributive role of governments is often overlooked in debates on the causes of rising inequality. Much has been written about increasing wage differentials between low-skilled and high-skilled workers, which are routinely attributed to technological change or trade with emerging giants such as China and India. Inequality in the North is portrayed as an inevitable by-product of global economic integration and technological progress. This single-sided view leads to the false notion that governments can't do much about rising inequality.

Taxes and transfers: What impact do they have?

Yet, different governments have addressed the outcomes of the same market forces differently. Before taxes and transfers, Belgium, France and Germany all have higher market inequality than the United States. In Finland and the Netherlands – two countries widely regarded as egalitarian – the initial Gini coefficient is only marginally lower than in the United States (see figure 1). As a group, the Gini coefficient of 0.460 in European countries matches almost exactly the average of 0.466 in the liberal market economies of Australia, Canada, Israel and the United States. The key difference lies in the tax and transfer system: it reduces the Gini coefficient for disposable incomes to 0.278 in Europe, whereas it is left at 0.343 in the latter group (see figure 2).

Before taxes and transfers, Belgium, France and Germany all have higher market inequality than the United States

Redistribution is more limited in the emerging economies. The three Latin American countries in the sample (Brazil, Colombia and Guatemala) all share high Gini coefficients for private sector incomes of 0.50 and above. Moreover, the region's tax and transfer systems only slightly reduce the Gini coefficient (on average by 0.027). A recent World Bank study concludes that "a good deal of Latin America's excess inequality over international levels reflects the failure of the region's fiscal systems to perform their redistributive functions".[6] By

Figure 1 The impact of taxes and transfers on income inequality in 25 countries (latest available year)

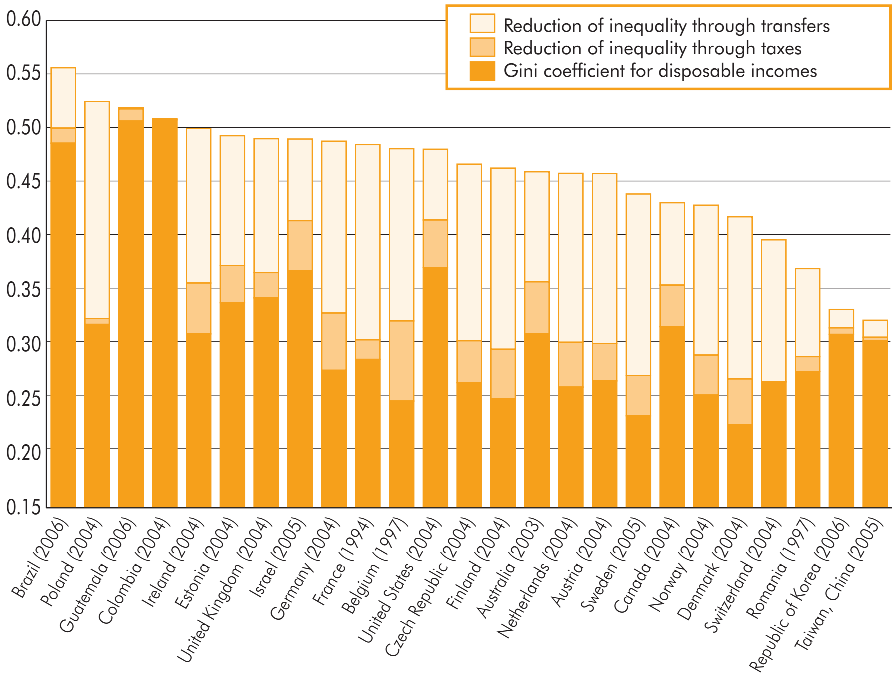
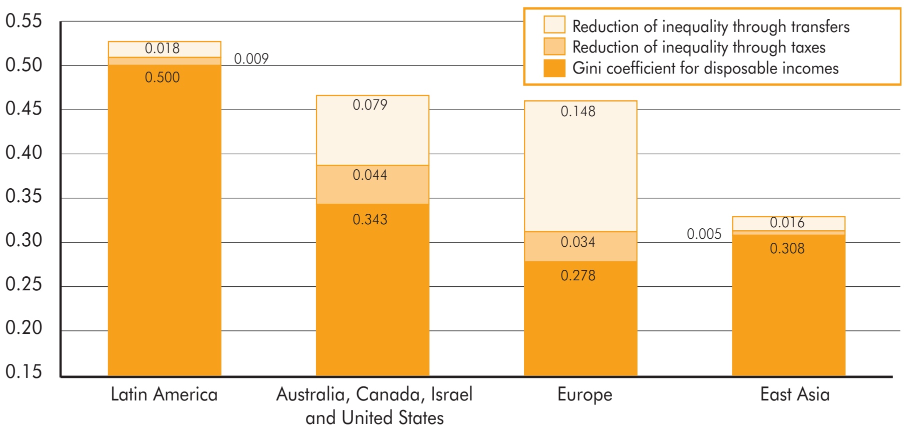


Figure 2 The impact of taxes and transfers on income inequality, regional averages (2000s)



Note for figures 1 and 2: The total height of the column corresponds to the Gini coefficient for market incomes (i.e. before taxes and transfers).

Source for figures 1 and 2: Luxembourg Income Study (LIS), see http://www.lisdatacenter.org/; analysis of micro-data completed between February and May 2011.

contrast, economies in East Asia, where the initial distribution of capital was more equitable, have managed to achieve a low level of private sector inequality and arrive at relatively egalitarian outcomes without the need for redistribution (see figure 2).

Different policy choices also explain why the impact of long-run increases in inequality is more acutely felt in some countries than in others: Germany faced a sharper increase in market inequality (+0.402 points per annum) than the United States (+0.330 per annum), yet inequality of disposable incomes rose only moderately in Germany (+0.038 points per annum) compared with +0.293 points per annum in the United States. Sweden offset a modest long-run rise in market inequality almost completely. This shows that countries – even small open economies such as Sweden – still have substantial policy space in the era of globalization.

So, why don't the poor simply tax the rich?

What drives the extent of redistribution? In the tradition of Joseph Schumpeter and Anthony Downs, the public choice literature has given some simple answers. It starts from the assumption that voters and politicians are rational, utility-maximizing actors, and then models redistributive outcomes. The argument runs that, the greater income gaps are, the greater the incentive for the poor majority to tax the rich. Politicians, always keen to win or regain office, will oblige and write ever-more generous welfare cheques. The problem with this theory is that legions of papers have failed to find any solid empirical evidence that links higher inequality to more redistribution.

What explains the failure of the poor to tax the rich in countries such as the United States? While there is evidence that the government is responsive to preferences held by the electorate, public policy is more responsive to demands from affluent voters and bears little resemblance to the views held by the poorest voters. This matters, since the views of rich and less well-off voters differ sharply on issues such as minimum wage legislation, welfare spending and taxation. Other researchers have found the same attentiveness to the concerns of better-off constituents at the level of individual US senators.[7] The concern here is that inequality itself has corrosive impacts on democratic institutions.

Why public opinion matters

Nonetheless, shortcomings of representative democracy are only part of the answer. When controlling for unemployment and demography (i.e. the share of the population aged 65 years and above), there is no apparent difference in how the political systems of France, Germany or the United States, translate voters' preferences into redistributive outcomes.[8] The key difference are the inputs: whereas a majority of voters in France, Germany and other European countries believe it is the responsibility of the government to reduce income differences, the same statement finds support among only a third of US voters.[9] This hostility towards redistribution is often linked to an unrealistic belief among the poor in upward social mobility. The irony is that social mobility in the United States is no greater than in the United Kingdom – the classic example of a class-based society – and far lower than in Germany or the Nordic countries.[10]

If public opinion matters, it is worth winning the argument for a fairer distribution of incomes. The ILO has a special role to play as a global voice that defends the values of its Constitutions and challenges unfair outcomes.[11] Having lost much of its "hard power" due to declining membership, the union movement can use the "soft power" of arguments to win support for social justice beyond its traditional base. The moment for this is ripe, given that the financial crisis has compromised the old model. It is a good start that even a billionaire such as Warren Buffett deplores that he pays lower taxes than his secretary.

Notes

[1] The author would like to thank Janine Berg, Frank Hoffer and Sangheon Lee for helpful comments. The views expressed in this essay are those of the author and do not necessarily reflect the views of the International Labour Organization.

[2] M. Murphy: *Interactive: 2010 bank CEO pay, Financial Times* online, 14 June 2011.

[3] All figures include capital gains. See *World Top Incomes Database* website by F. Alvaredo and others.

[4] ILO: *Global Wage Report 2010/11* and *Datenblatt Deutschland* (Geneva and Berlin, ILO, 2011).

[5] See the paper by A.B. Atkinson in G.A. Cornia (ed.): *Inequality, growth, and poverty in an era of liberalization and globalization* (Oxford, OUP, 2005).

[6] E. Goñi et al.: *Fiscal redistribution and income inequality in Latin America* (Washington, DC, World Bank, 2008).

[7] See papers by M. Gilens: "Inequality and democratic responsiveness" in *Public Opinion Quarterly* (2005, Vol. 69, Issue 5); M. Gilens: "Preference gaps and inequality in representation" in *PS: Political Science & Politics* (2009, Vol. 42, Issue 2); and L.M. Bartels: *Economic inequality and political representation* (Princeton University, Department of Politics and Woodrow Wilson School of Public and International Affairs, mimeo, 2005).

[8] See M. Luebker: *Income inequality, redistribution and poverty: Contrasting rational choice and behavioural perspectives* (Helsinki, UNU-WIDER, forthcoming 2012).

[9] See the results of the latest round of the International Social Survey Programme's (ISSP) module on social inequality (http://www.issp.org).

[10] See, for example, J. Blanden et al.: *Intergenerational mobility in Europe and North America* (London, Centre for Economic Performance, 2005).

[11] See ILO: *Report of the Director-General: A new era of social justice*, 100th International Labour Conference (Geneva, ILO, 2011).

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Taxing finance

Toby Sanger

The financial and economic crisis has led to a long overdue re-evaluation of the role, regulation and taxation of the financial industry around the world.

The IMF estimated the crisis would cost G20 countries over US$1,000 billion in increased deficits; costs citizens are now paying for through public spending cuts, austerity measures and consumption tax increases. This alone is a good reason for the unprecedented interest in introducing new taxes on banking and the finance industry. Despite this, the commitment by G20 leaders at their September 2009 summit that the "financial sector should make a fair and substantial contribution" towards paying for some of the costs of the crisis remains unfulfilled.

While Canada's conservative government sabotaged agreement to introduce taxes on finance through the G20, civil society and labour organizations achieved major progress when the European Commission proposed that a financial transactions tax (FTT) should be introduced by 2014 in Europe. Momentum grew in 2011 when both the Vatican and Bill Gates also expressed support for a global FTT.

The European Commission estimates a 0.1 per cent tax on transactions of equity shares and bonds and a 0.01 per cent tax on financial derivatives would generate €57 billion (US$77 billion) a year in revenues.[1] A majority of the 27 member nations of the European Union support an FTT, but strong opposition by countries such as Sweden and the United Kingdom has so far prevented its adoption at the EU level. Supporters are now pushing for the 17 core countries that use the euro currency to adopt one without these dissenters.

The campaign achieved another major advance when President Sarkozy announced France would introduce a 0.1 per cent tax on equity transactions (and 0.01 per cent on derivatives) by large corporations headquartered in France by August 2012 with the hope other countries would follow France's lead. His leading contender in the French presidential elections, socialist François Hollande, has promised to keep the tax if elected.

This revival of political support for financial transactions taxes has been a long time coming. In 1936, following the Great Depression, John Maynard Keynes wrote in his "General Theory" that "the introduction of a substantial government transfer tax on all transactions might prove to be the most serviceable reform available, with a view towards mitigating the predominance of speculation over enterprise in the United States".

Nobel-prize winning economist James Tobin applied Keynes' idea when he proposed an international tax on currency transactions "to throw sand in the wheels" of international finance, reduce speculation and cushion exchange rate fluctuations after the Bretton Woods monetary system broke down in 1972.

Many countries already have long-standing and effective taxes on certain financial transactions. The UK's Stamp Duty tax, which includes a 0.5 per cent tax on most equity transactions, has been in existence since 1694 and raises over US$5 billion in revenues annually. Switzerland also levies a tax on transactions of stocks and bonds. China levies a tax on trading in stocks, and adjusts the rate depending on how much they want to cool down or stimulate their stock market. Taiwan, China, not only taxes transactions of stocks and bonds, but has a tax at a lower rate on transactions of financial derivatives such as options and futures. Unfortunately, many countries eliminated their financial transactions taxes during the 1990s on the eve of the stock market boom that ended in the 2008 financial crisis.

Given this experience, there is no question financial transactions taxes are not only feasible but can be effective and raise significant amounts of revenue at a low administrative cost without much economic disruption. The interest now is in even broader based taxes to cover currencies and financial derivatives. Because much of this trading is global and highly mobile, financial transactions taxes in these areas would be much more effective if established through global or multi-lateral agreements.

Financial transactions taxes [...] can be effective and raise significant amounts of revenue at a low administrative cost

Beyond paying for some of the costs of the crisis, there are also a number of other compelling reasons for increased taxation of the financial sector.

- *Financial sector is too big*

  Whether considered from a critical political economy or a more conventional neoliberal perspective, there is broader recognition that the financial sector has grown "too big" for the good of the economy, as a recent IMF report suggested. Finance is an intermediary industry, and doesn't directly produce goods with end-use values for people, so it can divert resources from other more productive areas. Excessive salaries and bonuses paid to engineering graduates to create new financial products and derivatives divert them away from work on more fundamental social needs.

- *Tax changes have provided large benefits and preferences for finance*
  Major tax changes introduced over the past decades inspired by supply-side economics provided large benefits to the financial sector and to highly compensated individuals in the industry. These include: preferential tax rates for capital gains and investment income, increasing dependence on consumption-based value-added taxes (VAT) which largely exempt financial services, cuts to corporate taxes and reductions in higher income tax rates. Lenient regulation and prosecution also allows the banking and finance industry to avoid taxes through the extensive use of tax havens.

- *Reducing incentives for excessive risk-taking*
  There is increasing recognition that tax preferences, including lower rates on "investment" income and stock options, increase incentives for short-term speculation and excessive risk-taking in the financial sector, as even the IMF and the European Commission have acknowledged. Bankruptcy and limited liability laws have limited downside risk for corporations for centuries. Following the financial crisis, there is also more focus on the damage caused to the entire economy by systemically risky activities, with the implicit public guarantee for "too big to fail" financial corporations.

Some have argued that the exponential growth of trading in financial derivatives – futures, options, swaps and the like – has magnified financial instability instead of reducing volatility as it was supposed to. The value of financial derivatives outstanding now amounts to an extraordinary more than ten times the value of annual global economic output. Clearly much of this involves investments designed to increase profit through leverage and risky speculation instead of hedging to insure underlying investments against economic fluctuations.

There's been little effort to contain or control this growth of financial derivatives. They have been largely unregulated; unlike transactions for most other goods and services, only a few countries apply taxes to a broad range, let alone to any financial transactions. The growth in derivatives (and associated power of hedge funds, private equity and use of secretive tax havens) has not only siphoned revenues from national governments, but also made them more vulnerable to the power of financial capital. This has made countries across

Africa, Asia and Europe increasingly vulnerable to these "financial weapons of mass destruction" as Warren Buffett has called them.

There should be little surprise that support for increased taxation of the financial sector comes from different sides of the political spectrum: new taxes on finance could not just help to pay for the costs of the crisis and provide funding for global social and environmental needs, but also tame the financial industry and help prevent further financial crises.

Taxes on finance could […] tame the financial industry and help prevent further financial crises

Proponents estimate a broad-based tax at 0.05 per cent on all financial transactions could generate US$200 to US$600 billion a year in revenue globally – significant funding for global development and environmental priorities.

A global FTT might not raise US$600 billion a year and cure all ills with the global economy, but it could certainly raise significant sums while improving the functioning of the economy. There is solid research showing a tax at a rate of 0.005 per cent just on transactions of major global currencies could generate over US$30 billion annually at a low administrative cost and with little impact on markets. The G20 and other countries should join with the European Commission proposal to establish broader based financial transactions taxes at the international level, but agree to direct half the funds generated to international development and climate justice priorities.

There is also no reason why national governments can't proceed with increasing other taxes on finance. There's a strong argument for financial activities taxes to compensate for the broad exemption of financial services from most value-added tax systems. As proposed by the IMF, a 5 per cent tax on profits and compensation in the financial sector would form a good proxy for value-added by the industry and could generate significant revenues in many countries.

Tax preferences that have provided disproportionate benefits to the financial industry and even increased the incentives for speculative behaviour should also be eliminated. These include reduced tax rates for capital gains, stock options and other forms of financial investment income. There's also some justification for a higher corporate tax rate on bank and large financial sector firms given the implicit "too big to fail" guarantee governments provide to rescue them from failure.

These tax changes will not fix all problems with finance, eliminate speculation and generate all the revenues we need for global poverty and environmental challenges. But at a time when governments have reacted to the financial crisis by penalizing people with cuts to public spending, increasing taxes on finance would not only be much more equitable, but also better for the health of the economy.

Note

[1] European Commission: *Taxation of the financial sector: Frequently asked questions* (Brussels, EU, 2011). Available at: http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/index_en.htm (accessed March 2012).

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A Plan B for the world economy

Christian Kellermann

The world has managed to get through the "Great Recession" fairly well using Keynesian instruments of fiscal stimulus. However, as the crisis-fighting measures have neglected the deeper structural roots of the crisis of 2008–09 which are a lopsided and excessive deregulation of financial as well as labour markets, they alone have not been able to pull the world economy sustainably away from the brink. Instead, the US subprime crisis by now has morphed into the euro area sovereign debt crisis with no easy solution in sight. As long as these issues are not resolved, the return to a stable growth path without new crises seems hardly possible. On the other hand, to tackle these issues, much more extensive economic reforms would be necessary, with regulation of both financial and labour markets: a Plan B for the world economy.

Destructive über-finance

Finance has played a crucial role in most of the economic crises we have experienced since the 1990s. Financial markets are both gigantic amplifiers of imbalances within and between our economies and a root of imbalances themselves. Illuminating the cracks in finance is therefore the logical starting point for the Plan B of straightening out our current capitalistic system. The excesses of finance are only one part of the fundamental problems economies and societies are facing and which have contributed to the recent crisis. There are at least three dimensions of instability which are related to finance but go beyond the narrow instabilities of the financial system. First, imbalances between different sectors within economies have escalated. One expression of this is highly indebted private households as well as governments, as a consequence of real estate and other bubbles which were fuelled by the financial system. Second, international imbalances have never been as big as they are today. Third, together with financial deregulation the shareholder-value principle of corporate governance became dominant. This led to a short-term

Illuminating the cracks in finance is therefore the logical starting point for the Plan B

orientation of management and high bonus payment for management at the cost of long-term sustainable development of companies and firms.

Besides these developments, the globalization project of the last decades led to a huge increase in wage dispersion and an ever-growing low-wage sector which had not been seen since the early times of capitalism before the First World War. Labour markets in almost all industrial countries became more deregulated while at the same time trade unions became weaker. In many cases economy-wide or sector-level collective bargaining was eroded. Firm-based wage negotiations or individual working contracts without any collective agreements started to dominate.

Increasing inequality is a phenomenon which can be found in almost every country. High inequality does not only provoke a feeling of "unfairness" in and between societies; it also hinders social mobility and has negative impacts on health and productivity. Hungry wolves do not hunt best – in fact, the very opposite is true for present day economies. The American dream of high social mobility within a society and the opportunity for anyone to become rich if they work hard enough is in fact little more than a mirage. Today, mobility within society is more of a reality in the Nordic countries of Scandinavia where equality is higher than in the Anglo-Saxon world of capitalism.

Capitalism has more problems: in the past, it led to a very special type of technology, production and consumption growth which is blind to ecological problems and the fact that natural resources are limited. Prices systematically fail to adequately incorporate ecological dimensions and the deterioration of nature. Prices also give the wrong signals for the direction of innovation as well as of production, consumption and the way we live. After experiencing a number of regional ecological disasters in the past century, the world is now heading for a global ecological disaster, unless fundamental changes take place very soon. This makes the search for solutions very complicated: the present crisis is not only a deep crisis of traditional capitalism, but it has emerged at a time when a deep ecological crisis is also evolving.

A new symbiosis with capitalism

A global Plan B must include three interrelated dimensions.

- First, the model must be ecologically sustainable: preventing global warming, changing to a renewable energy basis and preventing other problematic developments such as a reduction in biodiversity.
- Second, it must be formed in such a way that the growth process is not jeopardized by either asset-market bubbles or goods market inflation or

deflation, and does not result in the excessive indebtedness of individual sectors or even whole economies, thereby leading inevitably to the next crisis. At the same time, such a model should promote innovation and, therefore, technological development necessary both for solving ecological problems and, in the medium and long term, increasing labour productivity and so holding out the possibility of growing prosperity for all.

- Third, it is critical that all population groups have a share in social progress. Inequality of income and wealth distribution must be at politically and socially acceptable limits.

At the core of Plan B is a more equitable income distribution. It is crucial to reverse the negative changes in income distribution and grant all population groups an adequate share in the wealth created in society. One secret of the success of regulated capitalism after the Second World War was the increasing mass purchasing power of workers, based on growing incomes and relatively equal income distribution. It is now becoming clear that the old model has to be regenerated.

At the core of Plan B is a more equitable income distribution

Income distribution has three important components: functional distribution of income in wages and profits; distribution within the national wage sum and the national profit sum; and state redistribution policy. A fall in the wage share is to a large extent the result of a higher profit mark-up. The latter was possible on the basis of deregulation, particularly due to the increasing power of the financial sector and its willingness to take risks in pursuit of higher returns. The shareholder-value approach and the increasing role of institutional investors drove enterprises to pursue higher profit mark-ups. Correspondingly, the structures and rules of the game in the financial sector must be changed in such a way that the profit mark-up falls again. One example: in the United States, where the dominance of the financial sector has gone furthest, management pay in relation to that of the average worker has risen from 30:1 in the 1970s to as much as 500:1 today. These figures show that the original aim of shareholder value, which was to subject the management solely to the interests of the owners, has had only limited success. Instead, management has been able to assert its own interests and enrich itself at the expense of the shareholders. This trend needs to be reversed and, while some reform progress has been made to date, the fundamental incentive structure remains unchanged.

Recent decades have been characterized by significant wage dispersion. In almost all countries in the world the low-wage sector has increased. Precarious employment and informality have also increased, especially in the sector of non-tradable goods and services. Globalization trends, therefore, cannot directly explain the emergence of these sectors. They are the result of labour market deregulation. These unjustified income inequalities among wage earners must be dismantled by means of labour market reforms. The collective bargaining system must be strengthened, backed up by other labour market institutions to achieve the decent work conditions stressed by the International Labour Organization. Minimum wages and social security guaranteed by the state also play a crucial role in this. Such labour market regulations are not only important to reduce income inequality, they are also important to establish a nominal wage anchor against deflationary money wage cuts.

Even with strict regulation, markets do not lead to a politically acceptable income distribution. In addition to that, not everyone has equal chances in the market. The disadvantaged – whether on the basis of gender, childcare responsibilities, disability, age, race and so on – can drop out of the market and be deprived of an income, or at best obtain only an inadequate one. Ultimately, by no means are all incomes obtained on the basis of personal achievements; consider, for example, large inheritances, which are an intrinsically alien element with regard to capitalism. Tax law and social systems must be deployed in order to organize income distribution in a socially acceptable manner. Tax law should therefore include a clear redistributive component, and this need becomes more pronounced the more evident it is that market outcomes alone will lead to growing inequality. Against this background, not only is a markedly progressive tax system important, but above all, regulations which ensure that incomes from capital are adequately taxed.

Plan B is a more "decent capitalism"

There is the danger of an economically lost decade (or even lost decades) for many countries. Indebtedness of economic sectors is very high. This makes a new credit expansion difficult. Income distribution has become much more unequal in Europe and the United States. This implies that consumption demand is unlikely to become very dynamic. There is even the danger that after a period of low growth or a new financial crisis the wage anchor erodes. There is some substantial risk that especially Europe and the United States will catch the "Japanese malaise" of a long-term low GDP growth or worse. The Great Recession was only partly managed right and there were no substantial steps taken to change the deeper roots of the crisis. The market fundamental globalization project was not questioned in its substance.

One thing is very clear: a more "decent capitalism" will not be created by the profiteers of the current system of non-regulation. Their profits are built too heavily on certain prerogatives, which they will not just hand over to public control. Quite the opposite is true: it is mostly mere placebos that have been rubber-stamped by the global financial elite so far. For deeper reform the underlying power relations of current finance capitalism will have to change, which means that the relationship between states and markets will have to be radically rebalanced.

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The dilemma of job creation and decent work

Edward Webster

The China price

In August 2010 South African Government officials began closing down clothing and textile factories in Newcastle, in the province of KwaZulu-Natal. This came in the face of angry protests from the workers because the owners were paying less than the statutory minimum wage of 324 rand (US$49) a week. The factory owners said they could not pay more and survive in the face of cheap Chinese textile imports.

Globally, the clothing and textile industry is to a large extent controlled by an oligopolistic group of large retailers and branded manufacturers, who stipulate their supply specifications in terms of low price, high quality and short lead times. But due to the strengthening of the local currency (the rand) since 2003, the end of the Multifibre Agreement (MFA) in 2004 and relatively high labour costs, South Africa no longer has a comparative advantage in an integrated global economy.[1]

The decent work dilemma

This challenge is not peculiar to South Africa. The existence of fragmented and outsourced manufacturing, accompanied by aggressive buying practices, militates against a living wage in the global apparel sector. This is in spite of the fact that there is general consensus on all sides of the industry that an increase in the unit labour costs by the amount proportional to what is deemed to be a living wage would only marginally impact on the retail price of the garment (Miller and Williams, 2009).

The result of these competitive pressures is the undercutting of local jobs from low wage sectors of the global labour force, as the case of Newcastle illustrates, where costs of labour are a small proportion of the total costs in production. On average wages constitute less than 0.5 per cent of the retail price of branded sweatshirts. Miller and Williams conclude that progress is possible only through an acceptance of collective bargaining through trade unions in supplier factories.

Andre Kriel, the general secretary of the Southern African Clothing and Textile Workers Union (SACTWU), takes a similar view:

> Some Newcastle employers expect us to decrease wages and compete in the world as a low wage country. This is a short-term and impractical view. If we drop wages, other countries will respond by dropping theirs further – a vicious downward spiral. Getting trapped in a race to the bottom is not a sustainable option. The other option, which we support, does not focus only on wages but also includes a long-term, sustainable and human rights-based solution. It requires compliance with our laws, decent work, a focus on improving productivity, modernizing work, up-skilling workers, improving quality, diversifying product range and ensuring reliable delivery times. (Kriel, 2011)

A new labour paradigm

Workers in the developing world, as early as the 1970s and 1980s in Brazil, the Republic of Korea and South Africa, became the architects of their own future. No longer willing to accept their designation as either victims or as labour elite, they took control of their lives, went out on strike and started a struggle for democratic trade unions. While the ILO was debating how to respond to their "discovery" of the informal sector in Kenya in 1972, Ela Bhatt had begun to organize these workers into a union, the Self Employed Women's Association (SEWA).

Workers […] in Brazil, the Republic of Korea and South Africa became the architects of their own future

A new labour paradigm has emerged in the Global South that does not see decent work as an obstacle or add-on to development, but is instead attempting to integrate decent work into an alternative developmental path. Work, I suggest, is the missing link in the current discourse on development; none of the dominant theories on globalization integrate the struggle for decent work into their developmental trajectories. All three dominant theories of globalization – neoclassical liberalism, the social reformist or anti-capitalist/autonomist theories that underpin the current anti-globalization movement and development statism – treat the struggle for decent work as either an obstacle or an add-on (Bowles, 2010).

Work […] is the missing link in the current discourse on development

The decent work deficit

In the course of my research on working life I have seen the erosion of standard employment relationships, the growth of insecure and low non-core jobs, together with the expansion of the informal economy and large-scale unemployment. These jobs lack the characteristics of decent work as defined by the ILO; they have, in other words, a "decent work deficit".

This deficit can be expressed as an absence of the four goals of decent work: an absence of sufficient employment opportunities, inadequate social protection, the denial of rights at work, and shortcomings in social dialogue. "It is a measure of the gap between the world that we work in and the hopes that people have for a better life" (ILO, 2001). These absences can be expressed in terms of four gaps: an employment gap; a rights gap; a social protection gap; and a social dialogue gap (ibid., 8–10).

The economic crisis which began in late 2008 has accelerated this logic, leading to the widespread bail-out of banks and now austerity programmes with cutbacks on public sector jobs and benefits. Many countries no longer hire permanent public sector staff and appoint on short-term contracts. For those in the informal economy the situation is worse, with their incomes being cut by an estimated 50 per cent.

Integrating decent work into an alternative development path

How can this decent work deficit be reduced? This can only be done by developing a long-term goal that integrates decent work into a country's growth path. In other words the goal of decent work should be seen as an objective to be progressively realized. Quite simply, this involves accepting that decent work is not an immediately achievable goal. Each country will have to take into account its specific social and economic context and set itself a series of immediate, medium and long-term goals.

Governments, together with their labour movements and employer associations, in some developing countries, have begun to identify how these long-term goals can be achieved. The crucial step in advancing this debate was the demonstration that a basic set of social security benefits, or at least parts thereof, are affordable in developing countries. The realization that, in the short term, it is possible to imagine building a global social protection floor – a basic pension, child benefits, access to health care, temporary employment guarantee schemes or income transfers for the long-term unemployed – broke the spell of the "non-affordability myth" (Cichon, Behrendt and Wodsak, 2011).

But if these policies are to be more than mere rhetoric, resources must be allocated to implement these policy frameworks. The only way to create sustainable employment is through turning "bad" jobs into "good" jobs through skills development and the improvement of infrastructure.

Decent work is a feasible long-term goal

This attempt at developing an alternative development path is not some way-out revolutionary adventure, "tilting at windmills" as it were. Instead it is swimming very much with the current by grounding political innovation in successful social policy initiatives. This is happening in countries such as Brazil, through a conditional family grant, the Bolsa Família; in India through the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) – a guarantee of 100 days' paid work for each rural household; and South Africa, which is experimenting with an employment guarantee of two days a week – the Community Work Programme (CWP).

The global South faces a massive challenge to overcome the legacy of its past and meet the challenge of globalization. If we take the modest sum of 1,500 rand per month (US$250) as a minimum for a "decent" wage, then over 10 million people out of South Africa's workforce of over 19 million suffer from a decent work deficit. But the challenge is not financial; it is one of thinking long term around strategies of future growth. This is a matter of priorities and political will. It is estimated that in India the MGNREGS costs 1.3 per cent of GDP. Estimates for a similar employment scheme in South Africa vary between 1 and 3 per cent of GDP.

But there are signs of an awakening civil society and a revitalized labour movement in the global South that could provide the pressure from below that brings together not only wage labour and the great swaths of informal, precarious labour, but also joins them to movements against the commodification of nature and of money in a new employment-generating and ecologically sensitive development path.

Note

[1] It is beyond the scope of this article to examine the validity of employers' claims that they cannot afford to pay the minimum wage. This would require undertaking a price breakdown of a Newcastle factory and the implications of a minimum labour price/cost floor for clothing retailers in South Africa.

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Edward Webster is currently leading a research team designed to develop a diagnostic tool to track the goal of decent work in the province of Gauteng, South Africa. His most recently co-authored book, Grounding globalization: Labour in the age of insecurity, *won the American Sociological Association (ASA) prize for the best book on labour in 2008.*

The Global Labour Column has become a valuable source of analysis of current economic trends that affect working people all over the world. This anthology brings together critical pieces on many issues (fiscal strategies, finance policies, social protection, strategies for job creation and much more), encompassing different regions and various perspectives.
Jayati Ghosh, Professor of Economics, Jawaharlal Nehru University, New Delhi

The Global Labour Column offers a useful forum for analysing and exploring policy alternatives for a fair and inclusive globalization. From the perspective of the tripartite ILO, this anthology plays a valuable part in highlighting the role of trade unions and how they must equip themselves to help turn the tide in favour of a new era of social justice.
Juan Somavia, Director-General, International Labour Office

The unfolding economic crisis has unequivocally proved that neoliberal policies were no better for growth than for social progress. The veil, which led some to believe that the sacrifices made by workers in the last 30 years were necessary for a healthy economy, has been torn. Or has it? As poverty and inequality are rising to alarming levels in Europe, the old continent seems at a loss to respond. Political leaders seem content to liquidate the social gains made by workers' struggles. A small minority, possibly even smaller than 1 per cent, associated with the financial sector, stands to benefit from a deepening of neoliberalism.

This new anthology of essays from the Global Labour Column explores Europe's turmoil and challenges the deep-rooted consequences of neoliberalism in the North and the South. It sheds light on new movements and ideas which are emerging to defend and mobilize workers, and points to encouraging new policies and directions which could lay the foundations of a new order that would put decent work and life at its core. A number of these come from the South, from which the North may have much to learn.

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