

SESSION SUMMARY

■ **EXITING FROM THE CRISIS: MODELS FOR MORE EQUITABLE AND SUSTAINABLE GROWTH**

Tuesday 24 May 2011

Speakers: **Richard Trumka**, President, TUAC & American Federation of Labor-Congress of Industrial Organizations (AFL-CIO)
Angel Gurría, Secretary-General, OECD
Sharan Burrow, President, International Trade Union Confederation
David Coats, Research Fellow, The Smith Institute
John Evans, General Secretary, Trade Union Advisory Committee to the OECD (TUAC)
Sandra Polaski, Deputy Undersecretary for International Affairs, US Department of Labor

In the wake of the financial crisis, the Trade Union Advisory Committee to the OECD (TUAC) together with a group of international labour organisations formed a task force to investigate the possibility of defining a new model for economic policies and growth to replace the pre-crisis economic orthodoxy. The initial findings of this task force are laid out in 'Exiting from the Crisis: Models for more Equitable and Sustainable Growth', a report based on contributions from 30 authors from a range of developed and developing countries.

In summarising the views expressed in the report, **Richard Trumka** noted that the main aim of the task force was to learn from the policy mistakes that caused the financial crisis in the first place, and to chart a new way forward that will allow a more equitable and sustainable recovery. Although financial market conditions have recovered, the financial crisis has evolved into a sovereign debt crisis and a serious job crisis that are very much still problematic. Estimates suggest that the recession destroyed around 30 million jobs globally, Mr Trumka said, and that there is a need to generate 400 million new jobs over the next decade. In Mr Trumka's view, the shift in emphasis of government policies in many countries away from stimulus and towards fiscal consolidation has come too early, and represents a move back towards the adoption of failed pre-crisis approaches.

In response **Angel Gurría** agreed that governments need to ask whether old paradigms and models are still appropriate. While there has been some better news on the employment front recently, there are still major challenges ahead, including the need to tackle youth unemployment and to prevent high long-term unemployment rates from becoming entrenched. But fiscal issues also need to be addressed, and there is therefore a need for a balance between tackling labour market problems and strengthening public finances. This will require targeted policies to address distributional issues and improve the functioning of labour markets.

Sharan Burrow also noted that global imbalances existed before the financial crisis but that they have worsened during the recession. These include discrimination, income inequalities and gender imbalances. Wages as a share of global output have fallen to their lowest level in decades, while unemployment has remained persistently high, threatening to prevent a resurgence of consumer demand. In addition, the growing importance of grey or informal economies threatens to undermine government efforts to boost the formal economy.

As the editor of the task force report, **David Coats** highlighted some of the other major issues raised, including the need for effective institutions and approaches to dealing with labour market problems. There have been clear differences in policy approaches between countries, and we need to learn from those that proved most effective at limiting the rise in unemployment during the recession. Generally, the most successful approaches have been those that achieved a balance between limiting dependence on welfare systems, by attaching conditions to benefits, for example, and investing in the skills and human capital of the unemployed in order to maximise their chances of returning to employment. Moreover, the most effective arrangements have been those that were negotiated between unions, employers and governments and therefore had broad support.

Sandra Polaski also stressed the need to question the prevailing wisdom, noting that unexamined policies did not serve us well during the recession. In this regard, international cooperation and coordination will be important factors in developing more effective approaches. There has already been some progress in developing new recommendations under the auspices of the G20 group of labour ministers, and another G20 conference is due to be held in September.

John Evans concluded the panel discussion by stressing that the task force report provides a snapshot of where labour market policy needs to go from here, and a basis for an ongoing process of improving policies. One key issue is inequality. The sharp decline in the wage share in total income and the significant widening in income differentials in favour of those at the top of the earnings distribution are not sustainable over the longer term. As well as social costs, inequality also has economic costs as it undermines economic growth. Mr Evans suggested focussing on three aspects of the problem at the top, middle and bottom levels. At the top, we need changes in corporate governance and a return to more progressive tax systems. In the middle, collective bargaining could help to re-establish fairer wage levels. And at the bottom, benefit systems need to be reformed to ensure that social safety nets are effective. It is also noticeable that those labour markets traditionally seen as being the most flexible have performed the worst in recent years, while systems usually seen as more rigid, such as those in Scandinavia, have generally performed much better.

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