



Executive Summary



International
Labour
Organization

Don't waste the crisis: Critical perspectives for a new economic model

Edited by Nicolas Pons-Vignon

A crisis means hardship, the loss of income and the loss of jobs. It also, however, provides a moment for reflection and deliberation on why the crisis happened and what needs to change.

The essays collected in *Don't waste the crisis* make a critical and passionate contribution to a new economic and social model that draws lessons from the current global financial and economic crisis. The authors – from academia, international organizations and trade unions – present a rich diversity of perspectives and a wide spectrum of critical analyses and recommendations.

A number of authors in the collection advocate a public investment and wage-led recovery, emphasizing the fact that the crisis happened in the wake of years of lower taxation for the rich and a decoupling of productivity growth and wage increases. They assert that a rebalancing of economies necessitates a functional wage policy that ensures sufficient levels of internal aggregate demand based on real income. Across-the-board wage moderation carries the high risk of a competitive race to the bottom, with hugely negative impacts on demand and overall price levels. This could drive the world economy into the deflationary trap experienced by several Asian countries in the 1990s. The measures endorsed by the ILO Global Jobs Pact – a minimum wage, stronger collective bargaining institutions, comprehensive social security provisions and labour clauses in public procurement, public investment and public employment – are important policy tools for reversing the wage slide.

No national strategy will be sustainable if global finance is not profoundly reformed by limiting speculation while at the same time reorienting investment to productive activities. Contrary to the allocative efficiency argument of neoclassical economic theory, insufficiently regulated financial markets have funnelled huge resources to unproductive and wasteful financial investments while causing a dramatic decline in real investment. A number of authors identify the lack of financial regulation as the weakest part of the current crisis response – which still threatens the ability of governments to maintain much-needed fiscal stimuli – and discuss various policy instruments for down-sizing and refocusing the financial sector. These instruments include a global financial transaction tax, higher reserve margins for banks, independent public rating agencies and stronger public savings and development banks.

Don't waste the crisis also examines individual country responses to the crisis, stressing the importance of national specificities to any discussion of economic policy – even when this involves the need for a regional approach, as in the case of Greece. The crisis has also called into question the export-led strategies of developing countries, as they can no longer expect that industrialized countries will absorb the additional supply. This may require a reorientation of development strategies towards more investment in local development, as outlined in an essay on South Africa. The crisis has demonstrated the enormous interdependence of the global economy. An essay on India shows how millions of informal economy workers faced an immediate and massive drop in wages. The crisis has underlined the urgency of providing a basic social floor for all workers, to protect them against poverty and deprivation.

Finally, the crisis is a profound challenge for the labour movement. A number of contributors seek to answer the crucial yet complex question of how, given the crisis, to redefine labour strategies. While some emphasize the need to adapt to changing macroeconomic conditions, all concur that labour needs to have a more confident and more inclusive approach, not least towards informal and unprotected workers. In many countries, social dialogue and collective bargaining institutions have proved highly efficient in terms of sharing the pain and finding immediate flexible responses. However, increased unemployment and pressures on public budgets serve to weaken the bargaining power of trade unions in the labour market

and threaten welfare state provisions. The current globalization model has failed and is deeply discredited, but so far this has not resulted in fundamental changes in policy. Without a new economic and social model ensuring that markets serve societies, rather than the opposite, the crisis will be used to bail out capital at the expense of working people and their families. Several authors thus argue that trade unions need to move beyond traditional membership and industrial relations, and to build new alliances, in order to not waste the crisis and to enable an urgently needed transformation towards social justice and fair globalization.

Envisaging a more sustainable future starts with a critical understanding of what caused the global financial crisis. The authors of *Don't waste the crisis* offer innovative ideas on wage-led recovery strategies, forward-looking public investment and industrial solutions, new concepts for development and coordinated international policies. This compendium is a timely and inspiring contribution to an urgently needed agenda for change.

The essays in *Don't waste the crisis* come from the Global Labour Column, a collection of articles posted on a weekly basis on the Global Labour University website. The Column aims to provide a forum in which labour movements and their allies around the world can connect, debate, and share knowledge and experiences. Through this sharing, participants hope to contribute to the development of fair and effective crisis response policies. The Global Labour Column is the product of a close collaboration between the ILO Bureau for Workers' Activities (ACTRAV) and Global Labour University (GLU) that brought together trade unionists and academics to devise new responses to the crisis. GLU is itself a collaboration of ACTRAV, trade unions and a network of universities offering unique masters programmes to trade unionists around the world. GLU's courses, jointly developed by universities and workers' organizations, are aimed at students from trade union and social movement backgrounds in developed, developing and transition economies.

Copyright © International Labour Organization

This summary is not an official document of the International Labour Organization. The opinions expressed do not necessarily reflect the views of the ILO. The designations employed do not imply the expression of any opinion whatsoever on the part of the ILO concerning the legal status of any country, area or territory, or of its authorities, or concerning the delimitation of its frontiers. Reference to names of firms and commercial products and processes do not imply their endorsement by the ILO, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

This text may be freely reproduced with mention of source.

Department of Communication and Public Information
International Labour Organization
4 route des Morillons, 1211 Geneva 22, Switzerland
For more information, visit our website www.ilo.org

