



LABOR NETWORK
FOR SUSTAINABILITY

**Labor, Sustainability, and Justice:
a review essay on**

Exiting from the Crisis: A Model for More Equitable and Sustainable Growth

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Executive Summary

1. The Great Recession, which represented the deepest economic crisis since the Great Depression of the 1930s, was not an isolated episode, but rather the predictable result of the policies and dynamics of the last thirty years — the era of deregulation and global capital mobility known as “neoliberal globalization.” Even as some declare the crisis over, the basic problems that resulted from those policies and processes remain, as do their devastating impacts on working people around the world.
2. While the solution to the problems of the global economy is often described as “growth,” and growth is generally measured by Gross Domestic Product (GDP), in fact GDP does not measure the well-being of people and society but rather the quantity of commercial transactions. It measures some things that should grow and other things — like pollution-producing processes — that we would be better off with less of. In order to evaluate whether the economy is growing in the things that we want and shrinking in the things we don’t want we need a new economic gauge. Fortunately, there are models being developed around the world that we can build on to create them.
3. The era of neoliberal globalization has been an era of growing inequality and injustice. A key cause of the Great Recession and our continuing economic difficulties is that underpaid and underemployed workers don’t have the purchasing power to provide strong and steady global demand. Policies to increase the purchasing power of poor and working people are working successfully in some places; applying them worldwide will be a critical part of exiting from the economic crisis.
4. The global economic crisis has hit at the time of a still greater crisis — the climate crisis. But saving the planet by transforming it to a low-carbon basis can be the motor that revives the kind of economic growth we need. A “global green new deal” can move the world toward full employment while saving it from climate destruction.
5. In the era of globalization, corporations have put workers, communities, and countries in competition with each other to see who will provide the lowest wages, biggest subsidies, and weakest environmental regulations. The result is a “race to the bottom” in which the conditions of all are driven down and global demand is reduced. In response to

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the Great Recession, countries are desperately pursuing austerity and “beggar your neighbor” trade and monetary policies that aggravate the race to the bottom and produce a downward spiral of inadequate global demand. A global economy requires a high degree of global coordination to provide an alternative to such mutually destructive policies. Globally coordinated full employment policies and global protection of labor rights are essential for reversing the race to the bottom and the downward spiral.

6. The era of neoliberal globalization saw an enormous growth in the financial economy that stunted and continues to stunt development in the real economy. A series of policies ranging from regulation of banks and the “shadow” finance industry to taking some of the profit out of financial speculation with a “financial transaction tax” can help reduce the impact of this leech on the global economy.

7. Preoccupation with immediate short-term profits and stock prices has turned corporations into engines of unsustainability. New systems of corporate governance, accountability, and reporting are necessary to represent the interests of a wider range of stakeholders and to make them act in line with environmental, economic, and social sustainability. Expanding these systems is to the advantage of working people and the labor movement, especially if sustainability is defined broadly to include labor rights and the reduction of poverty.

8. Most current economic policies are continuing or even augmenting neoliberal globalization. They are not only failing to solve the problems that led to the Great Recession, they continue to make the climate crisis more and more catastrophic. The labor movement around the world is in a unique position to propose alternatives that are in the interest of the great majority everywhere. We need a lively discussion of an alternative to the current economic and climate crises that can offer people real solutions as those crises affect them more and more profoundly.

Introduction

Early in the Great Recession, the head of the International Monetary Fund conceded, “The growth model that co-existed with globalization was unbalanced and unsustainable.” [1] This April, AFL-CIO President Richard Trumka released a volume of essays by trade union leaders and union-allied economists from around the world titled *Exiting from the Crisis: A Model for More Equitable and Sustainable Growth*. It proposes a “post-neoliberal shared prosperity growth model.” [2] This review essay uses *Exiting from the Crisis* as the take-off point for a discussion of just and sustainable economics that is urgently needed in the labor movement and beyond.

The model proposed in *Exiting from the Crisis* is based on a longstanding goal of the trade union movement: “To give working people a voice in determining their futures.” Today that means:

- building a global economy that offers sustainable, decent jobs for all those who wish to work
- allowing developing countries to experience rising incomes
- securing greater income equality as the best route to social cohesion
- ensuring that the growth process is consistent with the imperative of tackling climate change and protecting the environment [3] (24 and 258)

An international labor perspective can make a unique contribution to the discussion of our global economic future. The global labor movement articulates a global policy and interest distinct from that of corporations, investors, and global elites. It has to integrate interests of workers in different occupations, industries, countries, regions, and levels of economic development. It is based on a recognition of broad interests like climate protection, peace, democracy, and human rights.

1. David Coats, ed., *Exiting from the Crisis: Toward a model of more equitable and sustainable growth: Report of a Trade Union Task Force* (Brussels, European Trade Union Institute, 2011), <http://www.aflcio.org/upload/exiting.pdf> quoted p. 17.
2. Thomas I. Palley, “USA,” *ibid*, p. 79.
3. David Coats, “Towards a new growth model: Introduction,” *ibid*, and Ron Blackwell and David Coats, “Conclusions,” *ibid* p. 257.

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International labor discussion always has to deal with a great variety of legitimate but narrow interests and with the cumbersome process of developing a global consensus. But the perspective represented in *Exiting from the Crisis* represents a significant step toward defining a global common interest of the world's poor and working people. If we can cooperate across borders to force our countries to implement a common program that embodies that interest we can not only "exit from the crisis" but lay the groundwork for a very different and better world.

Exiting from the Crisis emphasizes that the world has changed too much in the past thirty years to simply go back to policies that labor has advocated in the past. The emergence of a global economy changes both the possibilities for national full employment policies and for economic development in poor countries. At the same time, the climate crisis represents a change in the relation between humanity and nature that must be central to any thinking about our economic future.

This review essay was prepared by the Labor Network for Sustainability, an independent network of individuals which seeks to promote an informed but freewheeling discussion in and around the labor movement of what it will really take to create a sustainable future. LNS regards sustainability as including but going beyond the environment to equally encompass social and economic sustainability as well.

The purpose of this review essay is to promote further discussion of the issues of sustainability and justice raised in *Exiting from the Crisis* in and beyond the labor movement. It presents the main ideas of the book and suggests directions for the next round of the discussion.

More than a Great Recession: The short death and rapid resurrection of neoliberal globalization

What's wrong with the world economy? What needs to be done to fix it? We are told that we are facing the lingering effects of the "Great Recession," the worst economic downturn since the Great Depression of the 1930s. That is true. We are also told that the solution is to restore the kind of economic growth that preceded the Great Recession. But the problems lie far deeper, and unless we address them now, we are likely to face greater and greater recessions — and worse — in the future. Without a new model, the problems of the Great Recession will persist, and our economy will become progressively more unjust — and more unsustainable.

How did we get here?

The era of Bretton Woods

At the end of World War II, the generation that had lived through the Great Depression established the so-called "Bretton Woods" institutions they hoped would prevent a return to the mass unemployment and misery of the 1930s. They established the General Agreement on Tariffs and Trade (GATT) to prevent the trade discrimination and trade wars that had so aggravated the Depression. They established the World Bank for Reconstruction and Development to finance the rebuilding of the war-torn world. And they established the International Monetary Fund (IMF) to help countries maintain full employment by growing domestic demand through fiscal and monetary policy rather than by capturing the markets of other countries. As Robert Kuttner puts it, their goal was "to create a global financial system biased toward full employment policies domestically." [4]

The next quarter century saw the longest period of sustained growth in modern economic history. With low unemployment, relatively mild recessions, and rising wages and profits, it has often been called "the Golden Age of Capitalism."

4. Robert Kuttner, "A model of fair and inclusive labour markets," *ibid*, p. 143.

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In the late 1960s, however, the global economy stumbled, with a sharp drop in profits, soaring unemployment, devastating recessions, stagnant real wages, and stagflation worldwide. Despite a variety of policy responses, these conditions persisted through the 1970s.

The era of neoliberal globalization

In response to the crisis of the global economy, many economists, corporations, and political leaders abandoned the economic strategy designed to maintain full employment through domestic demand and turned to a radically different approach variously known as neo-liberalism, Reaganomics, free-market globalization, and the Washington Consensus.

The guiding idea of this approach was to eliminate anything that interfered with capitalists trying to maximize their profits by competing in markets. The GATT was replaced by a World Trade Organization (WTO) dedicated to reducing labor, environmental, consumer, and other regulations as “barriers to trade.” The IMF abandoned its role as supporter of domestic-led economic growth and became the promoter of export-led growth based on cutting wages and public programs. The World Bank became a vehicle for imposing such policies on poor countries under the guise of “structural adjustment.” Most of the world’s governments adopted such neoliberal policies voluntarily or as a result of international pressure. Corporations took advantage of such conditions to go global, producing and selling their goods directly and through dependent suppliers and vendors around the world.

The consequences of neoliberal globalization

For most of the world’s people the thirty-year reign of neoliberalism has been disastrous.

In the developed countries, deregulation of labor led to falling wage share in national production and increased inequality. [5] Europe largely abandoned the “European social model” of redistributive tax systems, welfare states, codified industrial relations, and social dialogue. [6]

5. Peter Bakvis, “What should replace the Washington Consensus?” *ibid*, p. 52.

6. Andrew Watt, “Europe,” *ibid*, p. 52.

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Its Stability and Growth Pact and the freedom of movement of capital largely nullified measures promoting domestic employment. Precarious work proliferated and threatened the standards of those who continued in regular employment.

While “Washington Consensus” policies were supposed to help poor countries develop, in fact “GDP growth rates in developing regions that applied the policies most diligently, such as Latin America and Sub-Saharan Africa, were actually lower in the 1980s and 1990s than in the previous two decades.” Inequality and the number of poor increased in most developing countries. [7] The great exception was East Asia, which “had not followed the Washington Consensus policies and had grown faster than any other region of the world.” [8]

The debt problems of less developed countries deepened. International capital flows became much more volatile. The era has been marked by a string of global financial crises. While given labels like the “Mexican,” “Asian,” and “Argentinean” crises, they actually were world crises in which catastrophe ricocheted from one country to another.

Meanwhile, there was a huge shift of resources from the real economy to the financial economy — what came to be known as “financialization.” In the US, “The financial sector’s share of total corporate profit reached 42 percent before the crisis, up from about 25 percent in the early 1980s.” During the 2000s, “less than 40 percent of the profits of non-financial firms in developed countries were used to invest in physical capacity,” 8% below the early 1980s. [9]

Who gained from neoliberalism? From 1976 to 2007, the share of US national income of the top one percent of Americans grew from nine percent to more than twenty-three percent. [10]

7. Bakvis, *ibid*, p. 48.
8. Bakvis, *ibid*, p. 48.
9. Raymond Torres, “Incomplete responses to the Great Recession: costs and policy implications,” *ibid* p. 43.
10. Thomas Piketty and Emmanuel Saez, “Income Inequality in the United States, 1913-1998,” *Quarterly Journal of Economics*, 118(1), 2003. Updated to 2008 at <http://emlab.berkeley.edu/users/saez>

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The Great Recession

Inadequate incomes for ordinary people around the world inevitably led to inadequate purchasing power, aka economic demand. But this was hidden for years by the growth of debt — the other side of “financialization.” Every possible way to make money without making something of value was pursued. Banks lent recklessly; mortgages were sold to impoverished purchasers and bundled for sale to investors; exotic derivatives were invented and sold; credit default swaps purported to insure against financial losses; rating agencies endorsed the value of these “products” — while being paid by the very companies that produced them. [11]

Inevitably the bubble burst. Credit crunched. Banks refused to lend even to each other. Capital became unavailable. [12]

For a brief period, governments abandoned neoliberalism and “resorted to the supposedly discredited old-fashioned Keynesian recipes” to control the crisis. [13] Policies “that had been off the agenda for the previous thirty years — such as deficit spending and public ownership — were suddenly back in vogue.” [14] Governments “substituted private debt-led demand with public debt-led stimulus.” Fiscal stimulus in 2009 represented 1.7% of world GDP. [15] With the support of the IMF, demand-promoting measures like “coordinated global fiscal stimulus,” “quantitative easing” to inject liquidity into the system, and improved unemployment benefits to increase purchasing power became the order of the day. The IMF estimates that such stimulus policies saved 7-11 million jobs worldwide. [16]

That was only one side of the response, however. Governments in one way or another took on much of the colossal debts that were crushing the financial companies. And they did so with little change in the practices that had led to the financial collapse in the first place. The trillions of dollars they spent under various schemes to bail out and support the finance industry dwarfed the economic stimulus that went to support the well-being of ordinary people.

11. Pierre Habbard, with David Coats and Andrew Watt, “The regulation of financial markets,” *ibid*, p.128.

12. *Ibid*, 129.

13. Andrew Watt, “Monetary and fiscal policy tools,” *ibid*, p. 118.

14. David Coats, *op cit*, p. 19.

15. Torres, *op cit*, p. 40.

16. Bakvis, *op cit*, p. 49.

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Further, within a year, economists, investors, politicians, and pundits began warning of excessive government debt. (Public debt had indeed grown, not as a result of profligate spending, but primarily because of falling tax revenues and the public assumption of private debt.) They called for “consolidation,” aka fiscal austerity. Financial crisis in Greece and elsewhere began to reveal that there was a “sovereign debt crisis.”

The austerity drive included a demand for “wage flexibility.” As Joseph Stiglitz put it mockingly, “If workers were only ‘flexible’ in their wage demands, we could get the world back to work.” Wage flexibility represented “a hidden call” for “reducing the wages of the most vulnerable.” [17]

Such “neoliberalism on steroids” further weakened aggregate demand (10), thus threatening to prevent economic recovery and bring about a “double-dip” recession. Exiting from the Crisis warns that “policymakers are now, through fear of the bond markets, about to plunge the global economy into a prolonged slump.” [18]

The crisis continues

Despite claims of recovery, the devastating effects of the Great Recession on poor and working people continue unabated. In developed countries unemployment rates are 50 percent higher than in 2008. The youth unemployment rate is now nearly 2.5 times that of adults. Worldwide, there are one hundred million more people in extreme poverty than before the Great Recession began. [19]

The revival of neoliberal policies is aggravating this situation in multiple ways. “Consolidation” is creating cutbacks in public services and weakening the “automatic stabilizers” like unemployment compensation that normally boost demand when employment falls. These austerity policies put downward pressure on wages, further reducing effective demand.

17. Joseph Stiglitz, “Preface,” *ibid*, p. 10.

18. Coats, *op cit*, p. 23.

19. Sharon Burrow, John Evans and John Monks, “Forward to the report of the trade union task force,” *ibid*, p. 17

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While for many companies profits have returned to pre-crisis levels, many profitable companies are still reducing investment. “The companies are sitting on piles of cash, and using low and even negative interest rates to boost dividends.” [20]

In the US, manufacturing investment remains weak because of “global excess capacity.” Construction remains weak as a “hangover from the property bubble.” Consumer spending remains weak because “households are deleveraging and increasing savings.” [21] Such is the touted recovery from the Great Recession.

Pillars of a global labor alternative

It is clear that a further continuation of neoliberal globalization will only aggravate the Great Recession. But *Exiting from the Crisis* does not propose a simple reversal of neoliberal policies and a return to those of an earlier era. Indeed it notes, “Simply to call for a return to the policies of the post-war boom period would be a catastrophic mistake.” [22] New realities like globalization and climate change require new solutions that may incorporate elements of past programs but also must go far beyond them.

The approach laid out in *Exiting from the Crisis* can be summarized in the following “pillars”:

Redefining growth: The apparent economic growth of the past thirty years, as measured by Gross Domestic Product (GDP), has left the rich richer, the poor poorer, the global economy in ruins, and the world threatened by devastating climate change and other forms of environmental destruction. We need a new gage to measure our economic success, one based on real human needs and environmental impacts.

Equalization: The benefits of neoliberal globalization have gone to a tiny minority; the costs have been paid by the overwhelming majority. Not only is that unjust, it has led to the very lack of purchasing power — aka economic demand — that is producing recession and unemployment. Raising the incomes of workers and the poor is central both to economic

20. Jim Baker, “The rise of precarious work,” *ibid*, p. 172.

21. Thomas Palley, *op cit*, p. 80.

22. Coats, *op cit*, p. 24.

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justice and to the kind of economic growth that benefits people and the planet. Worker organization and collective bargaining locally, nationally, and internationally are critical aspects of that process.

Public investment for a green and sustainable future: Hundreds of millions of people are unemployed and underemployed while billions suffer from poverty, climate catastrophe, and other preventable problems. We need to develop forms of global public investment to use our human and natural resources to meet our needs.

Countering the downsides of globalization: While globalization was supposed to “lift all the boats,” for most it has led instead to a race to the bottom in which workforces and countries compete to attract footloose capital by lowering their labor, environmental, tax, and social standards. Countering the race to the bottom requires global labor rights, limits on financial speculation, and a focus on producing for home markets rather than for export.

Definancialization: As financial institutions have taken over more and more of the economy, ordinary people have become so much the poorer. Instead of dictating to society, finance should be a tool that society uses. Downsizing, regulation, taxation, public accountability, and the creation of public purpose financial institutions can all help make that so.

Making corporations accountable to people: The original justification for laws allowing incorporation was to encourage people to join together for socially beneficial purposes. In neoliberal doctrine, however, corporations instead should aim exclusively to “maximize stockholder value.” A worldwide movement is developing to make corporations accountable to a wide range of “stakeholders,” including workers, communities, and citizens, and to pressure them to adopt sustainable practices.

Shifting power: Neoliberal globalization has not prevailed because its proponents had better ideas, but because they were able to amass more power. The policies that can make it possible to “exit from the crisis” will only be implemented if labor, popular movements, and their allies grow strong enough to impose them.

Exiting from the Crisis makes one thing clear: “Markets, if left to themselves, will never develop effective institutions for global economic governance.” Markets alone “cannot solve global imbalances, deal with exchange rate questions, establish a fair trading regime, tackle climate change, or reduce income inequality.” [23] That will take people, acting through their unions, social movements, and governments.

Growth for what? Growth for whom?

In Charles Dickens’ Victorian novel *David Copperfield*, the absurd optimist Mr. Micawber advises young David: “Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.” In the eyes of today’s economists, politicians, and business leaders, Gross Domestic Product (GDP) often seems to play a similar role: “GDP up one percent, result happiness. GDP down one percent, result misery.”

Organized labor has long been an advocate of economic growth as a way to increase employment and provide a better life. It has joined in the celebration of GDP growth as an unmitigated good. So it is striking to see the very first chapter of *Exiting from the Crisis*, “Measuring economic performance and social progress” by John Evans and Anoushek Karvar, devoted to an attack on the GDP as the primary measure of economic progress and a proposal for a better alternative. [24]

The origins of the GDP date back to 1934, when the US Chamber of Commerce began reporting what it called the “net product” of the US economy. This represented the dollar value of recorded commercial activity during the year. Today’s GDP, despite a long string of technical adjustments, still measures annual commercial activity.

Growth — for and against

The conventional wisdom — long shared by organized labor — has been that the GDP measures economic growth, and that economic growth means more goods and services are produced and more people have jobs producing them. The alternative to growth was economic stagnation or depression, with unemployment and falling wages for workers and massive misery for all.

23. Blackwell and Coats, op cit, p. 262.

24. John Evans and Anoushek Karvar, “Measuring economic performance and social progress,” *ibid*.

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The first prominent critique of this view came from environmental economists. They pointed out that if a barrel of oil or a ton of coal was burned, we might be better off because of the heat or plastic that was produced, but we were simultaneously poorer by the value of the “natural capital” that we no longer had because we had used it up. Furthermore, production that made us sick by polluting our air, or made us poorer by making our land and water unusable, was nonetheless counted as a positive for GDP growth. In both cases GDP only counted the gains but not the losses.

Some environmentalists took the critique further. A famous 1972 study called *The Limits to Growth* argued that there could not be infinite growth on a finite planet. Many environmentalists have concluded that this means we must shift from an economy based on growth to one based on a steady-state — to “prosperity without growth.”

Such views found little support among conventional economists or organized labor. They pointed out that growth in the value of goods and services produced did not necessarily mean more depletion of resources or more pollution. A new industrial process might add to GDP but nonetheless use up less fuel or create less pollution. Experience and most economic theory seemed to indicate that an economy that didn’t grow would go into depression. The people of the world, and especially the poor of developing countries, desperately needed economic growth in order to escape poverty. Besides, many felt intuitively that growth and progress were things to which people were right to aspire.

Exiting from the Crisis, however, brings labor into the chorus criticizing the conventional view that growth in GDP per capita is “the only relevant benchmark for economic performance.” (27) It points out that GDP “measures market activity rather than welfare.” [25] It calls for a “rethink” of “the objectives of economic policy and how best to measure progress towards these objectives.”

What does it find wrong with GDP as a measure of economic progress?

For one thing, GDP completely ignores the distribution of wealth and income. For example, during 1980-2005, more than 80 percent of the total increase of income in the US went to the top 1 per cent of the population. So the growth in GDP during that period made only a marginal contribution to the well-being of the remaining 99 percent of the American people. [26]

25. Evans and Karvar, *ibid*, p. 28.

26. Evans and Karvar, *ibid*, p.29-30.

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For another thing, GDP can't distinguish fictitious from real growth. For example, from 1986 to the mid-2000s, the share of financial sector profits in all domestic corporate profits doubled from less than 20 percent to 40 percent in the US. The financial meltdown of 2008 revealed that these profits were based on transactions and assets that were virtually worthless. Yet they were counted as part of GDP — and the resulting GDP growth was used to justify deregulation policies that sacrificed the production of real goods and services to pump up the financial bubble. [27]

Further, GDP provides a distorted picture of economic reality. For example, US GDP growth has been made possible by an unsustainable growth in energy consumption. So when we measure success by GDP growth, we are celebrating the very policies that are leading us to future catastrophe. Similarly, when our healthcare sector grows its growth is touted as a sign of growing GDP. So when our healthcare expenditures balloon to 16 percent of GDP, twice the average for the rest of the developed world, it appears as a sign of success! It appears irrelevant that infant mortality and life expectancy are better in countries that spend half as much of their GDP on healthcare. [28]

Finally, GDP excludes unpaid labor, such as caring that takes place in families and voluntary community work, that makes a huge and essential contribution both to individual wellbeing and to the functioning and improvement of society. The great majority of this work is performed by women. The UNDP estimates that unpaid work produces an output equivalent to at least half of GDP. As *Exiting from the Crisis* observes, "It is ludicrous to maintain a system of GDP calculation which includes financial speculation, whose impact on welfare is close to zero, and excludes care work, whose contribution is enormous." [29]

In short, GDP per capita tells us little about the quality of life enjoyed by the citizens of a developed country. It tells us nothing about the distribution of incomes, nothing about differences between rich and poor in terms of health and life expectancy, nothing about social mobility, nothing about environmental sustainability and little or nothing about the quality of life. [30]

27. Evans and Karver, *ibid*, p. 29.

28. Evans and Karver, *ibid*, p. 29.

29. Claire Courteille, "Putting work/family reconciliation policies on the agenda of a post-neoliberal era," *ibid*, p. 200.

30. Evans and Karver, *op cit*, p. 32.

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Beyond GDP

To be for or against growth in itself is absurd. We want some things to grow and others to shrink. If a child grows at a healthy rate we celebrate. But it is a different matter if they grow fatter and fatter until they become obese. The growth of new cells is essential for human life, but not if they are cancer cells.

In the Preface, Nobel economist Joseph Stiglitz observes that in the US and some other countries, “we have created an economy in which most citizens are worse off, year after year. We might boast of the increases in our GDP, but what good is that if that increase in GDP does not redound to the benefit of ordinary citizens?”

This paradox points to the need for a new way to measure economic success. As Stiglitz put it, “Any economic system has to be graded on its ability to provide sustainable increases in well-being to the vast majority of its citizens.” What kind of test should be developed to give the grades?

A major step toward a test for the well-being of citizens was the Human Development Index first published by the United Nations Development Program (UNDP) in 1990. It adjusts per capital GDP by factoring in purchasing power, income inequality, life expectancy, literacy, and average years of education. It established that it is possible to construct an effective measuring stick for how well a country is doing at meeting such basic human needs — one that gives far different results from the GDP’s measure of commercial activity.

Exiting from the Crisis calls for the development of alternatives to GDP that include such factors as income distribution, economic security, and carbon intensity. And it describes a pioneering venture in doing so.

In 2009, the French Ministry for Sustainable Development convened an “Environmental Round Table” for five stakeholder groups: trade unions, businesses, local authorities, environmental NGOs, and governments. They identified 11 “spotlight” indicators — mostly environmental — against which to assess French and European sustainable development strategy. They then combined these with five “contextual indicators” designed to “integrate the environmental benchmarks with a more general set of social and economic indicators.” These included income inequality, unemployment, underemployment, public health, health inequality, economic security, and social integration.

They then explored “forms of engagement with ‘men and women in the street’” to verify that the indicators match their needs and expectations. According to *Exiting from the Crisis*, “A decisive step has been taken so that the French public can take ownership of the debates surrounding sustainable development, while recognizing that sustainable development is not just an environmental question but above all an economic and social one.” [31]

In the US, it is time for labor and environmentalists to put aside the fight for and against “growth.” We should cooperate to point out the absurdity of GDP growth as a measure of success. We should cooperate to develop a better way to measure the well being of both humans and the environment. And we should insist that public policy aim to raise those measures of well-being, rather than pursuing an expansion of commercial activity — as measured by the GDP — for its own sake.

Growth and justice

It has been a truism of neoliberal economics that inequality promotes economic growth. But *Exiting from the Crisis* argues exactly the opposite. As Sharan Burrow of the International Trade Union Confederation puts it, “Inequality drove a stake into the heart of stability in the global economy and, unless it is corrected through greater equity, it will continue to do so.” [32]

Here’s the reason: While workers’ productivity was rising year by year, the lion’s share was captured by employers and investors. Workers’ wages and incomes were almost stagnant. In the US, for example, median real wages grew by only 0.3% per year between 2000 and 2006. Yet the productivity of labor grew by 2.5% per year. [33] A similar gap between rising productivity and stagnating wages marked much of the world in the decades before the Great Recession.

This growing inequality led to a gap between what workers could produce and what they could buy. The result was a gap in “global aggregate demand” — aka purchasing power — that the report puts “at the center of the current crisis.” [34] This problem was masked as ordinary

31. Evans and Karvar, *ibid*, p. 31-33.

32. Sharan Burrow, “The Global Jobs Pact – a prescription for recovery,” *ibid*, p. 112.

33. Torres, *op cit*, p. 38.

34. Stiglitz, *op cit*, p. 10.

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people in the developed countries borrowed more and more money just to make ends meet — creating superprofits for the finance industry. But people couldn't keep borrowing more and more forever. Underlying the collapse of finance and growth lies the inadequate purchasing power of ordinary people around the world.

While various fixes may boost economic activity in the short run, they are unlikely to provide for long-term prosperity until the basic problem of economic inequality is addressed. As *Exiting from the Crisis* puts it, "It will be hard for robust *sustainable* consumption to be restored without improving equality." Without greater equality, the result is likely to be a vicious circle in which inadequate demand leads to greater unemployment which in turn drives down wages and increases inequality. [35]

Tools for equality

While growing inequality and inadequate income take different forms in different countries, they are a worldwide problem. *Exiting from the Crisis* proposes to address that problem through such means as full employment, higher wages, strengthened collective bargaining, job security, tax fairness, rebuilt public services, and appropriate growth for the developing world. We review each below, followed by examples of how such strategies have actually worked in developing and developed countries. Other parts of a labor program, such as changes in finance, international trade, and corporate governance are dealt with in later chapters of this series.

Full employment: When it comes to reversing the trend to inequality, *Exiting from the Crisis* finds "Full employment matters more than anything else. High employment and low unemployment in decent and secure jobs at relatively equal hourly wages is the best route to greater equality." More broadly, Robert Kuttner notes that "Restoring full employment has to be at the heart of a just system of working life." [36]

Such sustainable full employment cannot be achieved by financial gimmicks. It requires "steady demand and output growth driven by investment and wage income rather than debt." [37]

35. Stiglitz, *ibid*, p. 10.

36. Robert Kuttner, "A model of fair and inclusive labour markets," *ibid*, p. 146.

37. Watt, *op cit*, p. 123.

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Employment is currently being undermined by the drive for debt consolidation. As Joseph Stiglitz notes, by reducing debt, the advocates of consolidation hope to force cutback in social spending. But there is a more rational economic response: “increasing investments, even if debt financed, can improve the nation’s overall strength and even reduce the medium-term debt/GDP ratio.” [38]

Indeed, when private investment is failing to create full employment, it is only rational for public investment to do so. For countries such as the US with a backlog of high return investments and with the ability to borrow at close to zero interest rates, “government tax revenues will increase far more than the interest that will have to be paid, so debt will be lower and GDP higher.” [39] Similarly in Europe there is a need for public investment projects, “notably in infrastructure and the transition to a green economy.” [40]

Rising wages: In conservative “trickle-down” economic theory, more money for corporations and investors means more investment which means more economic growth and more employment. During the decades before the Great Recession, this formula was implemented around the world. The share of Gross Domestic Product (GDP) going to wages declined in most countries. Conversely, the share of GDP that went to gross profits increased. [41]

The result was that, in the twenty years before the Great Recession, wages regularly grew less than productivity. Such “wage restriction” and “profit share growth” did not lead to real investment, however. On the contrary, “The share of real fixed capital formation in GDP has tended to decline in advanced economies — as well as for the world as a whole.”

Far from spurring investment, the consequence of “wage moderation” was a “downward bias in aggregate demand.” Not surprisingly, employers were not interested in investing and hiring people to produce goods and services that nobody could afford to buy. “This vividly illustrates the failure of wage moderation and debt-led growth to boost potential growth.” Indeed, “Growing income inequalities have proved to be economically inefficient.” [42]

38. Stiglitz, *ibid*, p. 11.

39. Stiglitz, *ibid*, p. 11.

40. Watt, *op cit*, p. 65.

41. Torres, *op cit*, p. 40.

42. Torres, *ibid*, p. 40.

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Expanding the purchasing power of poor and working people around the world by raising wages is a key to a sustainable recovery from the Great Recession. The report calls for “a floor under wage levels” to raise the working poor to a living wage. Other means include “Collective bargaining, minimum wages, family allowances, subsidized early childhood education and child care, [and] comprehensive health coverage.” [43]

Collective bargaining: A long-standing goal of the labor movement has been to “take wages out of competition” and to “compel industry to compete on the basis of efficiency and productivity, not on the basis of compelling employees to work for the lowest market clearing wage.” [44] This goal was pursued by a combination of collective bargaining that set wage levels industry- or country-wide and public policies that set minimum wages and encouraged greater equality among industries, occupations, and regions. Collective bargaining is “essential in tackling income inequality, low labor standards and precarious employment.” [45]

Collective bargaining, however, has been “disastrously weakened during the phase of neoliberal economic policy dominance.” The result has been greater inequality. *Exiting from the Crisis* proposes instead “a return to policies in which governments explicitly strengthen the bargaining power and negotiating and problem-solving capacity of organized business and, in particular, labor interests.” [46]

A critical part of weakening collective bargaining has been the exclusion of marginal workers from bargaining rights. “Core workers protected by unions or by long-term employment contracts have been able to maintain many of their traditional benefits, but younger workers, women, part-time workers and immigrants have not enjoyed the same protections.” This society of “insider and outsiders” is not sustainable. Indeed, it is “destructive of the social solidarity on which the labor movement depends.” [47]

While some economists maintain that such a labor role is inherently inefficient, the report cites a major OECD Jobs Study that analyzed the data and concluded, “Equalizing impacts of unions on earnings do not come at the price of jobs or economic performance.” [48]

43. Kuttner, op cit, p. 147.

44. Kuttner, ibid, p.145.

45. Patuan Samosir, ibid, “Asia,” p. 74.

46. Watt, op cit, p. 123.

47. Kuttner, op cit, p. 144.

48. Andrew Jackson and Rory O’Farrell, “Narrowing income inequality,” ibid, p. 166.

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Job security: For the past 30 years there has been a general shift of risk from institutions to individuals. A central part of this has been the increasingly precarious and contingent character of work. That in turn has contributed substantially to inequality and inadequate, unstable purchasing power.

Public policy has often deliberately sought to augment such insecurity as a way to increase “labor market flexibility.” As Robert Kuttner points out, what that really means is “making it easier to fire workers,” “reduce their benefits,” and “outsource.” [49]

The consequence of labor market “flexibility” was to return labor markets to being “markets just like any other” as they had been many generations before. As employers increasingly avoided regular employment relationships and obligations under national labor law, “ties between workers and their enterprises” diminished. Instead, “temporary, casual, part-time, and contract labor” and “treating workers as self-employed” proliferated. [50] These relationships often allow the employment relationship to be concealed behind third party “labor vendors.” “The labor of a human being becomes, in effect, a ‘commodity’ to be bought and sold on the market.” [51]

Such “labor market flexibility” has been justified by the argument that it will lead to higher employment for marginalized workers by “pricing them back into jobs.” [52] But the evidence refutes this view. Countries with less “flexible” labor markets but a more active labor market policy had lower youth unemployment rates and better conditions for the less educated than countries with fewer protections for workers. The US and Spain, with extreme labor market flexibility, represent two-thirds of all the crisis-related unemployment in the developed countries. [53]

The human cost of precarious employment is evident. According to one study, “temporary workers are three to four times more likely to develop some form of mental illness.” Work-related stress among this group of workers is also linked with “a 50 percent increased risk of heart disease.” [54]

49. Kuttner, op cit, p. 147.

50. Baker, op cit, p. 170.

51. Baker, ibid, p. 173.

52. David Coats, “Flexible vs. inclusive labour markets,” ibid, p. 153.

53. Frank Hoffer, “International Labour Standards: safeguards for an open world economy,” ibid, p. 177.

54. Baker, op cit, p. 173.

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Reversing the rise of contingent work is a key part of any move toward greater equality. National labor laws should ensure that regular, secure jobs are available to all who want them. There should also be equal remuneration for work of equal value.

Tax fairness: Tax policy has played a significant role in the world's increasing inequality. Top marginal income taxes have declined in last two decades in most countries. [55] Between 2000 and 2010, the average corporate tax rate in the developed countries dropped from 33.6 percent to 26.2 percent. There were also significant cuts in top personal income tax rate and taxation of dividends. Yet in the same period, the net tax burden on working families was reduced only 1-2%. [56]

Tax unfairness is further increased because financial services companies are exempted from many taxes. "Domestic tax bases have been shrinking, not expanding, because the current systems are designed for the real economy (corporate income tax, personal income tax, VAT, property, and so on)." [57] The tax system thereby gives an incentive for further financialization.

At the same time it shifts the tax burden to the part of the economy that is actually producing goods and services rather than simply processing money.

Corporate taxes have also been driven down by the dynamics of globalization. Tax competition between countries to attract foreign investment and to make domestic firms more competitive internationally has "proved to have destructive effects on the original purpose of taxation for public services and distributional justice." [58] Countries across the world are "increasingly engaged in tax competition for the pool of tax revenues generated by mobile factors of production" like financial capital, industrial capital, corporate profits, personal income and the wealth of 'high net worth' citizens. The result has been a fall in tax rates on these mobile factors and rise of taxes on "immobile factors" -- notably labor and consumption. This is another factor behind rising inequality. [59]

Finally, a global "grey economy" has shielded a very large part of the economy from equal taxation. An unimaginable \$5-7 trillion are held in

55. Torres, op cit, p. 46.

56. Pierre Habbard, "Tax systems that work for distributive justice and public services," ibid, p. 135.

57. Habbard, ibid, p. 139.

58. Habbard, ibid, p. 138.

59. Watt, op cit, p. 117.

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off-shore financial centers. The world's "shadow banking system" encourages tax evasion, which may cost 2-2 1/2 % of GDP on average. [60]

As *Exiting from the Crisis* puts it with modest understatement, "A fairer distribution of the tax burden between labor and capital is urgently needed."

Public services: Although the Great Recession was followed by a brief period of expansionary public policies, today there are tremendous pressures worldwide to cut government deficits by reducing public services, laying off government employees, and reducing social benefits. "Workers are being asked to bear the cost of the crisis twice over: first through the initial financing of the bailouts and stimulus packages; and second through the reductions in public services, welfare and social security." [61] This not only eliminates employment directly, it also increases competition among workers by increasing the number unemployed and forcing workers to take any job under any conditions just to survive.

The reduction of public services and benefits also increases inequality because it hits hardest those, especially women and the poor, who need them most. "The provision of basic public services is an essential prerequisite for achieving gender equality and empowering women." [62] Restoring the social safety net for all — including, in the era of globalization, migrant workers — is a key element of restoring greater equality.

Public services are essentially "claims of rights by citizens to services that have been authorized through a democratic process and are provided on a non-discriminatory basis." [63] The abolition or privatization of public services has meant that "millions of people have been deprived of their fundamental human rights." Public services contribute to reduction of poverty and inequality and expansion of decent work and social integration and cohesion. Education is essential for democracy. [64]

Some counter-movements are under way. In some localities around the world transport, energy, water, and waste management systems are being taken back into public ownership or control. [65] China responded to the global recession with a fiscal stimulus package equivalent to 16% of 2007 nominal GDP; it included increased social assistance

60. Habbard, op cit, p. 137-8.

61. Habbard, ibid, p. 135.

62. James Howard, "A trade union approach to development and growth," ibid, p. 99.

63. Sebastien Dupuch, "Quality public services for fair and sustainable growth," ibid, p. 228.

64. Howard, op cit, p. 96.

65. Dupuch, op cit, p. 232.

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and retirement income transfers and public employment for laid off migrant workers and fresh university graduates. [66]

Development: Developing countries, like developed countries, have experienced weaker domestic demand. While competition in world markets has been promoted as a means for developing countries to escape from poverty, instead “increased competition between developing countries” has created a “downward trend in wages.” [67]

In certain countries, notably China and other countries in east Asia that have defied the economic strictures of neoliberalism and the Washington Consensus, there has been rapid economic growth. But this growth has not produced growing domestic demand and a growing internal market, in part because a weak safety net leads people to amass large “precautionary savings,” thus depressing spending. Furthermore, this growth has often been accompanied by increased income inequality and the denial of basic civic and labor rights. [68]

The region most affected by the “structural adjustment” austerity policies of neoliberalism and the Washington Consensus is Africa. In the past 30 years, Africa’s share of global trade has plummeted; income inequality has risen; adult literacy rates have fallen; more than half the population survives on less than a dollar a day; and life expectancy is below 60 years, the lowest in the world. Real per capita income is lower than in the 1970s. The number of Africans living in poverty almost doubled from 1981 and 2002. It is estimated that by 2015 one-third of the world’s poor will be in Africa. The “productive infrastructure” — including roads, health, education, energy, and water systems — “lies in ruins.” Even where there have been relatively high growth rates they have “coincided with the loss of formal employment and the rise of informal employment.” [69]

The report suggests a number of policies for reversing such conditions in the developing world. “The first task is to ensure that basic needs are met” — needs like water, housing, sustainable agriculture, and rural development. Protection for small agricultural producers is necessary to assure food security, “supporting domestic production so as to protect populations against the vagaries of international commodity markets.” [70] It is not acceptable for “large tracts of land in developing countries to

66. Torres, op cit, p. 45, and Samosir, op cit, p. 72.

67. Howard, op cit, p. 96.

68. Kuttner, op cit, p.143.

69. Kwabena Nyarko Otoo, “Africa,” ibid, p. 67-70.

70. Bakvis, op cit, p. 51.

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be used to grow crops for commercial food export” as is increasingly occurring. [71]

The debt of less developed countries should be cancelled without austerity conditions that hamstring future development. Developed countries should stop shirking the contribution of 0.7% of their income they are supposed to make annually toward the eradication of poverty. A development fund should be established to invest in poverty reduction. [72]

Exiting from the Crisis urges that economic policies reject protectionism, “but recognize the legitimate role of government in building strategic industries, especially in the ‘greening’ of traditional industries.” [73] To allow development, the global trading regime needs to “make provision for both a limited degree of infant industry protection and the phased elimination of tariffs as a country reaches industrialized status.” [74]

The “shift of capital and labor from low-productivity and low-wage sectors toward high-productivity and high-wage sectors” requires “an active role for the state in the form of an industrial strategy. The economic success of Korea, Taiwan, and China involved “targeting specific sectors and industries.” Their development depended on support for infant industries, including subsidies, cheap finance, technology, reverse engineering, and investment performance requirements. It also depended on trade policies that included tariff and non-tariff barriers, public procurement, science and technology policies, technology transfers, development of domestic markets, strategic sequencing of rounds of import substitution and export-oriented industrialization, and export targets. All aimed at specific sectors to take advantage of learning curves, synergy, and cluster effects. [75]

Unfortunately, this approach is still being discouraged by neoliberal economic policies. “Reduction and even elimination of tariffs across the board, as promoted in most trade agreements, goes against the need for protection of nascent industries. Building an industry without any tariff protection in a highly competitive international environment is beyond reach and hence tariff flexibility is required in order to build industries that can compete internationally.” The goal of an open global economy requires “phased market opening.” [76]

71. Howard, op cit, p. 99.

72. Howard, ibid, p. 100-101.

73. Tim Page, “The case for a modern industrial policy,” ibid, p. 225.

74. Esther Busser, “A new industrial policy growth paradigm for developing countries,” ibid, p. 110.

75. Busser, ibid, p. 107-8.

76. Busser, ibid, p. 108-10.

Latin America's strategy to protect the poor

What does expansion of purchasing power for workers and the poor look like in practice? Over the past few years, many of the newly democratic countries in Latin America, for example Brazil, have adopted policies to “improve the purchasing power of the poor.” They raised minimum wages and expanded income transfers. These measures boosted domestic demand, leading to “an increase in private investment and higher tax revenues.” (Because of rising commodity prices and speculative financial inflows, these countries accumulated large foreign exchange reserves and therefore faced no balance of payment problems.) [77]

When the economic crisis hit, Latin American democracies were pressured from within and without to cut back on these programs in the name of fiscal austerity. Trade unions and social movements, however, argued for continued pro-growth policies. [78] The countries that followed such policies were in fact the most successful in resisting or recovering from the crisis. Among the policies they adopted:

- Protecting and strengthening internal markets by income transfers and wage increases.
- Tax exemptions, tax cuts, and credit expansion to consumers.
- Financial support for enterprises through public credit and government incentives to private lenders.
- Support for business through tax exemptions, tax reductions, and public credit to prevent job losses, improve working conditions or environmental performance, comply with collective bargaining agreements, and facilitate negotiations with unions.
- Efforts to increase currency reserves.
- Increasing public expenditure and investment.
- Deepening regional integration.

Such policies have helped make the countries that adopted them among the most successful in “exiting from the crisis.” They point to an alternative strategy for the developing world.

77. Adhemar Mineiro, “Latin America,” *ibid*, p. 75-6.

78. Mineiro, *ibid*, p. 76.

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The Nordic model

While advocates of neoliberalism have maintained that there is only one viable path to prosperity — theirs — in fact there have long been alternative forms of market economy. [79] The one that long stood out as combining high levels of economic growth and social justice was the so-called “Nordic model” that prevailed in Scandinavia. The Nordic model was met with scorn by neoliberal economists, who insisted that it must lead to failure in the competitive global market -- followed by inevitable economic decline.

The Nordic model incorporates many of the policies advocated by the international labor movement. High trade union density and collective agreements help establish universal labor standards. There is little poverty and a strong emphasis on equal pay for equal work. There is universal income security with generous unemployment benefits, matched by an obligation of those receiving benefits to seek work. Taxes finance a high level of public services and public investment in human capital.

While the Nordic model provides exemplary labor rights and benefits, it also encourages a kind of labor market flexibility — albeit a very different kind from that advocated by neoliberals. Instead of protecting workers’ security by protecting existing jobs, it facilitates economic change by providing workers security even when their current jobs are eliminated. It does so through an “active labor market policy” which emphasizes education, training, and subsidized employment.

The essence of the model is that “workers who lose their jobs qualify for generous benefits while they are trained for other jobs, and that wage differentials among sectors are narrow, so that shifting sectors is more likely to produce an income gain than a loss.” [80] The policy is aimed at “facilitating structural adjustments and enhancing relocation abilities, reducing adjustment costs and maintaining the unemployed person’s contact with the labor market.” [81] And “Because the Nordic model is focused on managing labor transitions, ‘security’ lies in the notion of employability rather than in the protection of existing jobs.” [82] Such a model requires full employment or subsidized work and wage increases that keep pace with productivity growth. [83]

79. Coats, op cit, p. 21.

80. Kuttner, op cit, p. 147-8.

81. Thomas Carlen, “Adapting the Nordic Model,” *ibid*, p. 192.

82. Carlen, *ibid*, p. 194.

83. Kuttner, op cit, p. 147-8.

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The idea that such economies would fall behind in the era of globalization has proven false. A 2006 study of developed economies by the OECD demonstrated that “labour markets with high taxes, high benefits, strong unions and expensive labor market policies were just as likely to achieve full employment as the more liberal economies of the UK and the USA.” At the same time, these economies maintained much higher levels of social cohesion, equality, and social mobility, better health, higher levels of trust, and lower levels of incarceration. [84] And during and after the Great Recession, the Nordic countries have sustained high employment rates compared to countries with more conventional forms of “flexible” labor markets. [85]

A question of rights

Underlying the fall in wages and the rise of inequality lie fundamental questions of rights. In the era of neoliberalism, protections for labor rights decreased while those of property increased. “The policy of conferring greater importance on the rights of property owners, including enterprises, while demoting or ignoring other rights is one of the factors that explains the growing income inequality the world has experienced since 1980.” [86] (52) The struggle for labor rights lies at the core of a struggle for economic justice and equality, which in turn lies at the core of a strategy for exiting from the crisis.

Economic crisis: The green exit strategy

While the world is facing the Great Recession, it is simultaneously facing a far greater crisis brought on by the emission of climate-changing greenhouse gases (GHGs). *Exiting from the Crisis* points out that green growth and the green economy provide “a potential route out of the crisis.” [87] Indeed, the next big restructuring wave will be “the transformation towards a low-carbon economy, also referred to as the ‘green transition’ or even the ‘third industrial revolution.’” [88] But that transformation will require a transformation of public policy and the protection of poor and working people by a “just transition.”

84. Coats, op cit, p. 21.

85. Burrow, Evans, and Monks, op cit, p. 18 and Carlen, op cit, 191.

86. Bakvis, op cit, p. 52.

87. Anabella Rosenberg and Lorea Verheecke, “Green growth and the need for a paradigm shift:

88. challenges for achieving social justice in a resource-limited world,” *ibid*, p. 236.

Bela Galgoczi, “Green jobs and the green transition,” *ibid*, p. 243.

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Based on the findings of climate science, “deep and significant cuts in anthropogenic greenhouse gas emissions are urgently needed if we are to avoid dramatic, irreversible and self-reinforcing changes to the world’s climate.” Global GHG emissions will have to be cut to half their 1990 levels by 2050, which means that industrialized countries must make “an 80 percent cut in their emissions” by that date. [89] Unfortunately, at present the global economy is galloping in the opposite direction: Between 1990 and 2008 greenhouse gas emissions increased 41 percent and carbon emissions in 2011 have already reached a record level. [90]

Exiting from the Crisis makes clear that “Trade unions at global and national level have endorsed the imperative to reduce carbon emissions and more generally to decarbonize the economy.” [91] Indeed, “the economic growth model must be rendered compatible with ecological constraints, and, in particular, de-coupled from carbon emissions.” [92]

This requires major changes in the way our economies run. Future economic growth must be “decoupled from energy and resource use.” Indeed, “the entire spectrum of economic activity must be transformed.” However, neither the “necessary economic tools” nor the necessary “implementation mechanisms” are yet clear. [93]

Just transition

The shift to a climate-safe economy will require millions of “green jobs”: “jobs that help to preserve or restore environmental quality, jobs that reduce energy, materials and water consumption and jobs that contribute to decarbonizing the economy and minimizing all forms of waste and pollution.” However, “Green jobs are not enough.” The green transition must also be a “just transition.” [94]

“Just transition” refers to long-term sustainable investments” which could “create decent jobs and transform those in traditional sectors.” Elements could include “pro-active training and skills development policies,” “social dialogue with unions, employers and other stakeholders,” “research and early assessment of social and employment impacts of environmental policies,” “social protection schemes,” and “local economic diversification plans.” [95]

89. Galgoczi, *ibid*, p. 243-5.

90. “Editorial,” *The Guardian* (UK) May 30, 2011.

91. Blackwell and Coats, *op cit*, p. 266.

92. Watt, *op cit*, p. 119.

93. Galgoczi, *op cit*, p. 243-4.

94. Galgoczi, *ibid*, p. 248-52.

95. Rosenberg and Verheecke, *op cit*, p. 240.

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The probable loss of jobs in some sectors must be a “managed process.” There must be “investment in training and retraining,” a “proper assessment of the economic impact of environmentally driven structural change,” and “sharing of the burden.” [96]

Climate justice

Much of the difficulty in reaching a global climate agreement has resulted from disagreement between developed and developing countries. Developing countries have generally argued that the developed countries have created the climate problem and that developing countries should not have to pay the price through restrictions on their development. Developed countries have argued that if developing countries expand their GHG emissions without limit, climate catastrophe will be inevitable and no country will be willing to make a useless sacrifice.

Exiting from the Crisis proposes an alternative way to distribute the burden of climate protection justly and efficiently. Known as “greenhouse development rights,” this approach sets responsibilities based on individual income rather than national development.

This approach would establish a personal income threshold below which “people are not to pay for climate transition.” The initial proposed figure is an income of \$20 per day. [97] A country’s “capacity” to contribute to climate protection is calculated by adding up all individual incomes except those below \$20 per day. Each country’s share of the “responsibility” for cutting GHGs would be its cumulative emissions since 1990, except those resulting from people with incomes below \$20 per day.

These figures would be combined to produce a “Responsibility Capacity Index” determining each country’s “share of effort for reducing emissions.” That would introduce a different kind of social justice dimension into the climate debate. Rather than a battle between rich and poor nations, “responsibility falls on the richer social classes within nations.” [98] Needless to say, poorer countries would still bear less of the responsibility than rich ones, but even the poorest country would share some of the responsibility for climate protection.

96. Blackwell and Coats, op cit, p. 266.

97. Rosenberg and Verheecke, op cit, p. 239.

98. Rosenberg and Verheecke, ibid, p. 239.

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Markets and beyond

Some economists have maintained that the obvious economic advantages of clean energy and reduced resource consumption will automatically lead firms to reduce their carbon footprints. Others go one step farther and say that the costs that businesses now place on society in the form of pollution must be “internalized” so that the polluter pays their real social cost.

So far this approach has shaped much climate protection strategy. Policy has focused on raising the cost of carbon emissions through carbon taxes, cap-and-trade systems, or charges and subsidies. These have not proven sufficient, however, to “translate policy targets into business reality.” [99] As we have seen, GHG emissions have continued to rise with ominous speed.

There are a variety of reasons why these market-based approaches may not work. Take, for example, the theory that, if emitting carbon is made more expensive, firms will invest in ways to produce low-emission energy more cheaply and reduce the amount of energy people use. No doubt it contains some truth. But, if investment in new technology succeeds in making energy cheaper, the result may well be that “more renewable energy is available” but an increase in energy consumption means that “the environmental benefits of renewables are blunted by a continuing rise in the use of fossil fuels.” [100]

Or consider another example. With rising energy costs, “tenants have an incentive to insulate their homes” because they generally pay for heat. But the tenants are likely to be temporary renters, whose short-term savings will not nearly match the costs of insulation. The owners of the homes, conversely, “do not see the interest of investment in insulation” because they don’t pay the heating bills. [101] The result is, even though such insulation would save both energy and money, the market will not automatically lead either tenants or owners to do it. Such “market failures” are ubiquitous.

99. Galgoczi, op cit, p. 247.

100. Rosenberg and Verheecke, op cit, p. 237.

101. Rosenberg and Verheecke, ibid, p. 237.

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A Global Green New Deal

Is there an alternative? Unions from around the world, together with the United Nations Development Program and other allies, have developed proposals for a “Global Green New Deal” which uses massive investment in climate protection to create millions of new green jobs and jumpstart the global economy.

In the depths of the Great Depression, US President Franklin D. Roosevelt initiated the original New Deal – a set of government programs to provide employment and social security, reform tax policies and business practices, and stimulate the economy. It included the building of homes, hospitals, school, roads, dams, and electrical grids. It also included large-scale environmental programs to reduce dust storms, floods, deforestation, and erosion. The New Deal put millions of people to work and created a new policy framework for America democracy.

Unions from around the world, represented by the International Trade Union Confederation (ITUC), have worked with the UN to develop a strategy for utilizing the current crisis to reconstruct a greener and more just global economy. This approach has been endorsed by UN Secretary-General Ban Ki-moon, who said that the financial crisis requires massive global stimulus, and that a big part of that spending should be investing in a green future: “An investment that fights climate change, creates millions of green jobs and spurs green growth.” What the world needs, in short, is a “Green New Deal.”

The ITUC partners with the United Nations Environment Program (UNEP) in the Green Economy Initiative, which advocates “mobilizing and re-focusing the global economy towards investments in clean technologies and ‘natural’ infrastructure such as forests and soils.” According to UNEP Executive Director Achim Steiner, the financial, fuel, and food crises result in part from “speculation and a failure of governments to intelligently manage and focus markets.” Enormous economic, social, and environmental benefits are likely to arise from “combating climate change and re-investing in natural infrastructures – benefits ranging from new green jobs in clean tech and clean energy businesses up to ones in sustainable agriculture and conservation-based enterprises.”

According to UNEP, the objectives of a “Global Green New Deal” should be to create jobs and restore the financial system and global economy to health; to put the post-crisis economy on a sustainable path that deals with ecological scarcity and climate instability; and to end extreme poverty. UNEP spells out investments and policy reforms to achieve these goals.

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The ITUC has also partnered with UNEP on a “Green Jobs Initiative” whose program is summed up in the report *Green Jobs: Toward Decent Work in a Sustainable, Low-Carbon World*. [102] It describes the role of green jobs in “averting dangerous and potentially unmanageable climate change and protecting the natural environment” while “providing decent work and thus the prospect of well-being and dignity for all in the face of rapid population growth worldwide and the current exclusion of over a billion people from economic and social development.” It describes how green jobs are already growing in many parts of the world, but that many of them will not become good jobs unless deliberate policies are followed to make them so.

Indeed, the world labor movement emphasizes that addressing both the problem of climate change and the problem of economic decline requires government leadership and cooperation among governments. As the ITUC’s statement to the Copenhagen climate conference put it,

“Economic transformation cannot be left to the “invisible hand” of the market. Government-driven investments, innovation and skills development, social protection and consultation with social partners (unions and employers) are essential if we want to make change happen.”

“As the Stern Review reminds us, climate change represents the biggest market failure in history. We cannot trust the same failed market mechanisms to successfully steer out of this crisis. The problem has to be solved through regulation, democratically-decided and implemented public policies and most importantly political leadership.” [103]

A Global Green New Deal must be a critical part of the strategy for exiting from the crisis. It can revitalize the economy through “the mobilization of new investment,” “job creation in emerging sectors,” and innovative processes. (236) From a trade union perspective, “a greener economy represents an opportunity to build a progressive agenda for sustainability.” It provides “a chance to transform traditional sectors — by improving resource productivity, for example — and to create high quality jobs in

102. United Nations Environment Program, *Green Jobs: Toward Decent Work in a Sustainable, Low-Carbon World*, 2008. http://www.unep.org/PDF/UNEPGreenjobs_report08.pdf

103. International Trade Union Confederation, *Trade Unions and Climate Change*, 2009. http://www.ituc-csi.org/IMG/pdf/climat_EN_Final.pdf

new sectors.” [104] Indeed, as an ITUC resolution put it, “A full-scale transformation of global production systems and consumption patterns is required in order to safeguard societies and workplaces, while protecting and promoting decent work for all. Trade unions must play a central role in that unprecedented transformation.” [105]

Fair globalization

Globalization

The economic strategies pursued by the labor movement developed in the era of economies that were largely national. While nations traded with each other, most economic activity took place within a national framework. But the era of neoliberalism has also been the era of economic globalization. Corporations now organize their operations around the globe with little interference from national boundaries. Production is increasingly organized in transnational production chains made up of networks of companies. Financial operations span the globe and money surges from country to country with little restraint.

The result has been the continual erosion of the forms of national regulation on which organized labor has depended. “As commerce has become global, it has outrun the writ of the state.” [106] There has been a “regulatory ‘race to the bottom.’” Deregulation in one country “created pressure to emulate it in neighboring countries.” [107]

Globalization “placed workers in international competition without labor market protection,” leading to inadequate wage growth. That in turn led to a shift in income away from workers. The result was the global shortage in demand described in previous chapters.

“Lower labor market protection” and “increased precarious employment” have resulted in a “declining wage share and growing inequality.” The lack of wage-based aggregate demand that followed from these dysfunctional wage developments “translated into massive export surpluses in some countries and debt-financed consumption in others.” [108]

104. Rosenberg and Verheecke, op cit, p. 236.

105. Howard, op cit, p. 99.

106. Kuttner, op cit, p. 148.

107. Hoffer, op cit, p. 177.

108. Hoffer, ibid, p. 177.

Globalization and the Great Recession

The system established at Bretton Wood, designed to allow countries to maintain adequate domestic demand, was dismantled by the neoliberal offensive. In the era of globalization “there is simply no institutional set-up” at the global level to “coordinate balanced demand growth so as to achieve growth and employment objectives while maintaining stability.” [109] The “architecture of globalization” encourages “uncooperative national policy behavior” while it “discourages the domestic demand-led growth strategies needed in this time of global demand shortage.” [110]

This “coordination failure” led to the pursuit of “seeming rational national development and growth strategies” that “for a time were symbiotic,” but that “over time proved unsustainable.” [111] East and Southeast Asia experienced a financial crisis in 1997, and thereafter they adopted “export-led growth policies that increased foreign reserves and reduced debt exposure.” [112] Countries like China, Japan, and Germany adopted strategies designed to promote exports, such as wage restraint, currency undervaluation, and the buildup of trade surpluses. Countries like the USA, the UK, and Spain, conversely, followed debt-led growth strategies based on wage and price increases, asset-price booms, and trade deficits. [113] A similar dynamic developed within the EU: Wage deflation and welfare cuts in Germany and some other countries led to trade surpluses with countries in southern and eastern Europe, which experienced large trade deficits, leading to today’s European fiscal crisis. [114]

Emerging economies and resource-rich countries generated growing external surpluses leading to a “global savings glut” which let interest rates reach historic lows in the early 2000s, fueling a series of bubbles. Their surpluses financed the deficits of debtor countries. But “debt-led demand” proved unsustainable in the long run. Small increases in interest rates ultimately caused “a cascade of failures in loan repayments” — initiating the Great Recession. [115]

109. Watt, op cit, p. 117.

110. Thomas I. Palley, “A new approach to growth,” p. 58-9.

111. Watt, op cit, p. 117.

112. Palley, op cit, p. 57.

113. Watt, op cit, p. 117.

114. Watt, ibid, p. 62-3.

115. Torres, op cit, p. 39-40.

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Globalization after the Great Recession

Rather than seeking to correct the problems of globalization, current policy is aggravating them. The brief flirtation with coordinated action in response to the crisis has now been superseded by a “straightforward return to the protection of national interests.”

Most countries, including the US, are looking for an “export-led recovery.” This “global turn to export-led growth” is “dangerous.” Export-led growth is feasible for an individual country, but “it does not work when all try to go down that route” because “some countries have to be net importers.” [116] Under such conditions it leads to trade wars competitive devaluations.

Indeed, the exchange rate problem is now “going viral” and turning into a “currency war,” with countries “engaging in competitive devaluation aimed at poaching global demand and increasing their exports.” What is needed is a “new global system of coordinated exchange rates.” But instead of increased policy coordination, “the global economy appears headed in the direction of policy inconsistency and conflicts.” [118]

The result could well be a round of classic trade wars and “beggar-your-neighbor” policies in which “countries engage in competitive devaluations to gain international competitive advantage.” [119] That would further reduce global demand. “Unless some agreement is reached on exchange rates — particularly in relation to the US dollar and the yuan — then the global economy could be in for a bumpy ride.” [120]

Reforming globalization

The global mobility of capital means that our economic problems cannot be solved at a national level. “National policies that were once effective and feasible may be of reduced effectiveness and may be even infeasible” because of “increasing imports, job and investment off-shoring and financial capital flows.” [121] If we fail to extend a “more balanced form of capitalism” to the “global arena,” it is guaranteed that “corporations will play off national labor forces against one another, and that standards and rights will fall everywhere.” [122]

116. Palley, op cit, p. 58.

117. Palley, op cit, p. 82.

118. Palley, ibid, p. 58.

119. Palley, ibid, p. 58.

120. Coats, op cit, p. 87.

121. Palley, op cit, p. 58.

122. Kuttner, op cit, p. 148.

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This “race to the bottom” leads to falling global demand.

With jobs and investment highly mobile internationally, countries have an incentive to adopt policies that suppress wages, demand growth, and labor, social, and environmental protections. The reasoning is that this will make them more attractive to corporations and as a site for foreign direct investment. (FDI) Such policies also tend to please the financial markets. As a result, the deep structure of globalization exerts a deflationary bias, encourages export-led growth and discourages domestic demand-led growth strategies. [123]

The results are likely to be catastrophic. “If countries strive for export surpluses by keeping wage growth systematically below productivity growth, they either trigger a global downward spiral or force other countries to take protective counter-measures.” [124]

Exiting from the Crisis proposes four reforms to counter this dynamic.

Globally managed exchange rates. A system of “globally managed exchange rates” would be established to realize “approximate current account balance.” [125] The idea is that, when a country’s imports and exports are not roughly in balance, other countries will agree on exchange rate changes to correct the imbalance. This would represent a return to the principles that guided the IMF during the “golden age of capitalism” from the Bretton Woods agreements until the triumph of neoliberalism. The IMF strategy included international cooperation to support the affected countries so that they would not have to adopt extreme austerity measures — in contrast to the “structural adjustment” and “consolidation” policies adopted by the IMF over recent decades.

Such a system would need to deal with several problems that are not addressed in *Exiting from the Crisis*. China and the other Asian countries that have piled up large foreign exchange reserves have done so primarily to protect themselves from the severe currency problems they experience during the “Asian” crisis of 1997; some other means to provide such protection would have to be found in order to persuade them to limit their exports. The role of the dollar as the world’s primary reserve

123. Palley, op cit, p. 59.

124. Hoffer, op cit, 179.

125. Palley, op cit, p. 59.

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currency underlay both the Bretton Woods system and today's, but many countries would be unlikely to accept a "new Bretton Woods" system if it perpetuated the unique position of the dollar. And such a system would need effective ways to regulate today's much more globalized financial flows, capital mobility, and effective demand.

Regulation of capital flows. Under the Bretton Woods system, countries exercised "capital controls" which regulated the money that went into and out of the country. Capital controls were anathema to neoliberalism, and the IMF persuaded or forced virtually all countries to abandon them. *Exiting from the Crisis* proposes that "regulation of capital flows" be restored as a "legitimate and standard part of the economic policy tool box." [126]

Because such flows are so huge relative to the size of national economies, because there are so many ways for them to circumvent national regulation, and because financial markets are likely to punish countries that effectively regulating such flows, today regulation of capital flows will probably require a much higher level of international cooperation than in the past. (An international financial transactions tax (FTT), discussed later, is one form such cooperation might take.)

Restoration of national policy space. Over much of the twentieth century, countries developed national policies that provided for labor and consumer rights, healthcare, family and community stability, social security, economic development, and a wide range of other public goods. Neoliberalism has successfully campaigned to reduce or dismantle such policies. Trade agreements have gone far beyond the regulation of trade to define such national policies as illegitimate and illegal "non-tariff barriers to trade." The World Trade Organization, for example, authorizes sanctions based on arbitration panels which decide whether national policies are "WTO-illegal." *Exiting from the Crisis* urges that future trade agreements should "increase national policy space" to allow democratic decision making about national policies by those they affect. [127]

Global labor standards. Under the current "globalization regime," all countries "have felt the pressure to reduce labor costs by weakening labor market protections."

126. Palley, *ibid*, p. 59.

127. Palley, *ibid*, p. 60.

“Sustainable enterprises based on the principles of collective bargaining, fair wages, non-discrimination, taxation and respect for labor standards are out-competed by those who do not hesitate to employ children, ignore minimum wages, evade taxation, circumvent labor legislation, under-invest in health and safety and environmental protection and abuse the open global economy to demand ever more preferable conditions for investment and externalize as many costs as possible to society.

These forces demonstrate the need for “coordinated action to reverse the overall trend.” [129] It would produce “a new structure of competition” that “allows wages to rise with productivity.” Central to this are “strict globally enforced labor standards.” [130] (59-60) Such standards are often attacked as “protectionism.” But

Protecting hard won rights is not ‘protectionism’ in the sense of discriminating against imports. Just as we do not accept the goods of slave labor or prison labor as freely traded, democratic countries should not accept on equal terms the goods of societies that deny basic labor rights or that systematically exploit workers. [131]

Definancialization

Financialization

The three decades of neoliberal globalization saw enormous growth of the financial sector at the expense of the real economy. In the US, for example, the financial sector grew from 25 percent of total corporate profits in the early 1980s to more than 40 percent on the eve of the financial crisis. This hothouse financial growth simultaneously augmented and concealed the underlying weaknesses that eventually produced the Great Recession and that continue to prevent genuine recovery.

Financialization produced the illusion of vigorous economic well-being. But in fact it reflected an “unsustainable growth model” based on “wage compression, predatory lending, debt-financed consumption, and transfer of market risks to workers” through the restructuring of pensions and the housing market. Meanwhile proliferating forms of “structured finance” were fraught with hidden risks, conflicts of interest, evasion of regulation, and inadequate accounting rules.

129. 178. Ibid, p. 178.

130. Palley, op cit, p. 59-60.

131. Kuttner, op cit, p. 148-9.

The consequences were not limited to a financial bubble waiting to go bust; they seriously affected the real economy as well. “The impact on non-financial corporations was a growing trend to divert productive investment, previously financed out of retained profits, into share buy-backs and dividends (‘shareholder value’).” Non-financial corporations henceforth competed “not only in product markets, but also in financial markets.” They were expected to produce profits as big as those of the financial companies. Analysts called on non-financial companies to “reduce both capital investment and payroll, or face the consequences.” That led to a “documented reduction in productive investment relative to cash flow.” The cumulative effects included growing debt, outsourcing of jobs, and the expansion of precarious work. [134]

When the bubble finally burst, trillions of dollars were lost. “No government outside of war has ever been responsible for the magnitude of losses that have resulted from the financial sector’s misdeeds.” [135]

While “deregulation” was supposed to reduce government “interference” in the market, in fact the long-term effect was exactly the opposite. “Deregulation did not, in fact, result in less involvement in the market, but more: there was less involvement in the years before the crisis, but far more in its aftermath.” The multi-trillion dollar bailouts and restructurings created a system of “socialization of losses” and “privatization of gains.” [136]

Four years later, regulation of banks “has yet to be adequately changed.” Workers “had to rewrite their contracts to make the car companies competitive,” but “the bankers’ contracts were sacrosanct and could not be rewritten.” [137]

What is needed is a re-regulation and downsizing of the bloated finance industry, accompanied by the creation of a public purpose financial sector that provides for the needs of poor and working people.

Financial regulation

Exiting from the Crisis points out that “global finance needs global regulators.” (133) There must be a “new, internationally coordinated agenda for re-regulating the financial system” with “effective international

134. Baker, op cit, p. 169.

135. Stiglitz, op cit, p. 13.

136. Stiglitz, ibid, p. 12.

137. Stiglitz, ibid, 13-14.

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supervision and global governance.” [138] That in turn will require restoring the “philosophical standing of regulation.” [139]

Regulation should aim to counter those aspects of the financial system that tend to destabilize the entire economy. International cooperation should strengthen such “financial safeguards” as “early warning systems” and “prudential regulation.” It should include public accountability of central banks, regulatory authorities, and finance ministries. [140]

Regulation should “limit speculation, increase transparency and enable central banks to address asset price bubbles and preserve financial stability.” It should provide “position limits” and “margin requirements.” It should also include “balance sheet requirements that can be adjusted by policymakers,” including “liquidity requirements, capital requirements, asset based reserve requirements, and leverage restrictions.” [141]

Financialization has included a vast expansion of “shadow” banks, financial companies, and markets operating outside of traditional regulation. They have been free to engage in “double accounting” and “off-balance-sheet operations” as well as excessive risk-taking and leveraging. [142]

A crucial aspect of financial reform is to include “derivative markets, hedge funds and public equity houses” in the new regulatory regime. A crucial means to do so is to require all trading, particularly of derivatives, to take place via exchanges or clearing houses. That is a prime means to provide transparency for these elusive financial institutions. [143]

Much of the shadow finance activity has been conducted via “offshore financial centers” that allow hundreds of billions of dollars of transactions that are unregulated and untaxed. International cooperation in regulating and taxing such operations is a crucial part of any effective financial reform. [144]

Finally, much of the financial system is mired in outright corruption, whether banned or indulged by current legal practices. “Regulatory capture” is the rule not the exception, with the most important regulators drawn directly from the most powerful banks and financial institutions. [145] These practices are reinforced by “campaign finance,” “personal connection,” “ideology,” and the “revolving door.” [146]

138. Habbard, with Coats and Watt, op cit, p. 130-133.

139. Palley, op cit, p. 83.

140. Habbard, with Coats and Watt, op cit, p. 131.

141. Palley, op cit, p. 83.

142. Habbard, with Coats and Watt, op cit, p. 130.

143. Habbard, with Coats and Watt, ibid, p. 132-3 and Palley, op cit, p. 83.

144. Habbard, with Coats and Watt, op cit, p. 133.

145. Palley, op cit, p. 84.

146. Habbard, with Coats and Watt, op cit, p. 129.

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Public authorities can intervene to prevent irresponsible risk taking, establishing the right to “remove directors or suspend decisions about bonuses” and “restructuring to reduce systemic risk.” (133 - check quote) Guaranteed bonuses and remuneration to bankers can be banned. Illegitimate payments can be made subject to “clawback” provisions. [147]

Finally, banks and other financial institutions can simply be “downsized” so that they are no longer so powerful and so big that they are deemed “too large to fail.” [148]

Financial transaction tax

One powerful tool recommended by *Exiting from the Crisis* is a “financial transactions tax” (FTT). This is a small tax placed on all financial transactions. It can be instituted by individual countries, by international agreement, or by an international institution.

The FTT is designed to serve several purposes. The “measured and controlled increase in transaction costs” implied by an FTT would “slow down trading activities” so as to “align capital flows with economic fundamentals and the real economy.” It would thereby reduce bubbles and the “harmful effects of short-term speculation.” It would “provide governments with a powerful regulatory tool that would not depend on the ability of supervisory authorities to price or assess risk.” It would “redress the current tax exemptions that benefit the shadow banking system.” It would promote the “downsizing the global banking industry.” And it would provide a “much needed new source of financing for global public goods,” such as poverty eradication and climate protection. [149]

An FTT could have a different rate for regulated banks, hedge funds, other financial institutions, non-financial corporations, and public institutions. It could also have different rates for different kinds of transactions, such as traditional foreign exchange, exchange-traded derivatives, and over-the-counter derivatives. Such a multi-tiered system could be established by experimenting the “desirable level of reduction in trading activities,” which should be “large enough to wipe out short-term speculative trading, but not so large as to hamper normal functioning of markets.” [150]

147. Hubbard, with Coats and Watt, *ibid*, p. 132.

148. Palley, *op cit*, p. 84.

149. Hubbard, *op cit*, p. 139-40.

150. Hubbard, *ibid*, p. 140.

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Public purpose finance

As Joseph Stiglitz points out, “The financial sector is supposed to serve the economy — not vice versa.” [151] Despite its massive growth, the financial sector currently does a poor and expensive job of providing the basic financial services needed by ordinary people and non-financial enterprises. *Exiting from the Crisis* proposes an alternative model based on the idea of “banking as a public utility.” A “democratized and diversified” financial sector would expand “cooperative banking, mutual insurance, public financial services and other community based providers.” [152]

In addition, the global financial system needs to develop a new way to address problems of governmental “sovereign debt” better than the current “system” of crisis followed by emergency rescue loans and draconian “structural adjustment” and austerity programs. *Exiting from the Crisis* proposes a system of “pooled financial resources” that, in the event of crisis, “supports countries facing fiscal crisis and speculative attacks” while providing for “orderly default/restructuring channels.” [153]

Such an approach is currently under development in Latin America’s Banco del Sur. It will use rising commodity prices to build up foreign exchange reserves to protect national currencies collectively. It will facilitate regional trade without depending on US dollars. It will provide funding for regional development projects without requiring the neoliberal policies imposed by the World Bank and IMF. It is also developing plans for an international financial transactions tax. [154]

151. Stiglitz, op cit, 14.

152. Habbard, with Coats and Watt, op cit, p. 132.

153. Watt, op cit, p. 122.

154. Mineiro, op cit, p. 105-6.

Challenging corporate unsustainability

Corporations possess the lion's share of the world's wealth and economic power. Should they simply pursue their own self-interest and "maximize shareholder value" on the assumption that by doing so they will maximize economic growth and social well-being? Or should corporations serve the interests of society and be accountable to them?

The neoliberal view that has been dominant for the past three decades has been that the goal of corporations should be to "maximize shareholder value." This approach "puts shareholders at the top of the hierarchy of all those that are dependent and/or have relationships with the firm." [155]

This view has had serious negative repercussions. It has excluded for consideration the interests of all others who are affected by a company, be they workers, local communities, national economies, or the local and global environment. And it has led to pursuit of short-term profitability and short-term stock price maximization rather than the long-term interest of the firm, let alone the interests of other stakeholders and of society as a whole.

Together, "shareholder value" governance and corporate "short-termism" have undermined "stakeholders' long-term interests." They have led to "grotesquely large executive compensation, dividend payouts and share buy-back programs." [156] That has diverted resources from productive investment in the real economy to financial manipulation and speculation, contributing to the global economic crisis. And it has further skewed the distribution of income, increasing poverty and aggravating the shortage of "aggregate demand" — aka purchasing power.

Such practices are unsustainable for several reasons. The concentration on the quarterly bottom line leads to decisions that undermine the long-term viability of the corporation itself. The short-term focus undermines policies, such as long-term investment, needed by the economy and society as a whole. And the cumulative effect of corporate greed is to destroy the social and natural environment on which the corporations — not to mention the rest of us — depend for survival.

155. Sigurt Vitols, "The sustainable company: a key element of the new growth model?" *ibid*, p. 213.

156. Hubbard, with Coats and Watt, *op cit*, p. 130.

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But aren't corporations entitled to do what they want with what they own? *Exiting from the Crisis* answers with a resounding no. "The right to incorporate and the benefit of limited liability" are "constructs of law." The laws behind these rights are intended to "advance public welfare," which means that "corporate activity should advance the public's welfare." [157] But how can corporations be made to do that?

Sustainable corporations and sustainability reporting

According to *Exiting from the Crisis*, a new growth model must "replace the dominance of shareholder value" with "a focus on sustainable employment and production for the long term." [158] Advancing the public's welfare should be "the litmus test for issues regarding corporate governance and accountability."

Instead of devotion exclusively to the interests of stockholders, a new model of the sustainable corporation draws on a "stakeholder" model of the firm. "The company is dependent on and should serve the interests of a plurality of groups or 'stakeholders.'" [159]

A global movement is underway to encourage or require companies to report on their sustainability policies and their progress in realizing them. "Best practice here is currently defined by the Global Reporting Initiative (GRI)." GRI is a multi-stakeholder non-profit organization creating "comprehensive standards for sustainability reporting." It draws on a broad definition of sustainability. Sustainability indicators are defined and operationalized for "economic," "environmental" and "social." Social includes "labor practices and decent work," "human rights," "society," and "product responsibility." [160]

Studies of US companies indicate that 45 percent have some kind of sustainability goals and two-thirds have Corporate Social Responsibility (CSR) reports with data on emissions. [161] Very few however, yet report on the kind of broad spectrum sustainability represented by the GRI standards, let alone fully implement them in practice.

A truly sustainable corporation must find ways to implement these standards. Such a corporation "embeds sustainability in all its operations." It sets definite goals and strategies to realize them. It aligns its incentives with its sustainability goals, for example by making management pay depend on achieving them. It requires an externally verifiable reporting

157. Palley, op cit, p. 84.

158. Vitols, op cit, p. 213.

159. Vitols, ibid, p. 213.

160. Vitols, ibid, p. 215-16.

161. Vitols, ibid, p. 216.

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system — in effect, a social and environmental auditing system. And it involves employees and other stakeholders in decision-making through such means as collective bargaining, representation on corporate boards, international corporate works councils, international framework agreements, and stakeholder advisory boards. [163]

Making it so

Exiting from the Crisis proposes that major changes in corporate governance and corporate responsibility are a necessary ingredient of an alternative economic model. Those changes can be implemented in part through changes in the law governing corporations to create a “supporting framework for the sustainable company.” Corporate law would include a clear statement that “the primary purpose and responsibility of the company is not only to the shareholders to increase shareholder value, but that the company is a social entity obligated to pay attention to the interests of and increase the welfare of a broad range of stakeholder groups.” (218) It would also mandate companies “to extend their reporting beyond financial matters to include the whole range of sustainability indicators.” [164] Other reforms could include using the tax system to discourage excessive managerial pay and incentives for speculation; limiting stock buybacks and other financial engineering; and providing for representation for stakeholders other than just the stockholders.

The new agenda could also be implemented through an extended role for trade unions. Sustainability could be included among the mandatory issues for collective bargaining. Corporations could be encouraged or required to negotiate framework agreements on sustainability.

The pursuit of corporate policies that undermine environmental, economic, and social sustainability is not just a result of the decisions of corporate managers. The short-term focus of contemporary capital markets greatly aggravates corporate unsustainability. The average period for which institutional investors hold listed stocks has decreased to less than one year. [165]

Exiting from the Crisis suggests several ways that capital markets can be reoriented from short-term financially-oriented speculation to long-term sustainability-oriented investment. Public policy should encourage “patient capital,” which has traditionally been provided by long-term owners,

163. Vitols, op cit, p. 214.

164. Vitols, ibid, p. 218.

165. Vitols, ibid, p. 214.

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such as families, the state, and in some countries banks. Public investment funds and employee ownership programs with a voice in corporate governance could provide a portion of that “patient capital.”

Following the model of corporate sustainability reporting, institutional investors such as hedge funds and private equity funds could be required to report on the sustainability of the companies they invest in. Corporate voting rights could be reduced for short-term investors. Such measures would lead capital markets to reward, rather than penalize, sustainability policies. [166]

Organized labor and those it represents have everything to gain from corporate sustainability. For a first step, it should get strongly behind the movement for sustainability reporting.

When it does so, there is another role organized labor can play that will be beneficial both to itself and to the sustainability movement. It should ensure that workplace conditions, labor rights, and employment opportunity are included in the reporting standards for all forms of corporate sustainability and responsibility requirements. And it should see that economic justice and worker rights are strengthened as elements of corporate sustainability reporting and socially responsible investment indexes. [167]

Realizing a labor model of equitable and sustainable growth

According to *Exiting from the Crisis*, the era of neoliberal globalization has seen an “increase in the power of capital to play off states and workers alike.” [168] The result has been an increase in the relative power of global capital and conversely a weakening of democratic citizenship and trade unionism as countervailing forces. That has led, not to a neoliberal utopia of global cooperation, but to a war of all against all in which economic and climate crises threaten the well-being of people all over the world.

Yet those seeking an alternative are faced with a Catch-22. A globalized economy and a global climate crisis require global solutions. But the “global policy space” is dominated by national governments that at present do the bidding of their richest and most powerful economic and political elites.

166. Vitols, *ibid*, p. 219.

167. Vitols, *ibid*, p. 219.

168. Kuttner, *op cit*, p. 144.

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The path of least resistance for organized labor in each country is to demand that their national governments adopt policies that favor national labor interests against those of workers in other countries. But the unintended result is to undermine the very international cooperation that is the prerequisite for genuine solutions.

The only escape from this Catch-22 is for labor and its allies to develop their own program for the global economy and for each labor movement to demand that its own country cooperate with others to implement it. Many of the elements of such a program are laid out in *Exiting from the Crisis*. Realizing them requires a new political strategy for labor.

The objective of such a strategy should be to force the nations of the world to agree to a “grand bargain” that implements the critical interests of poor and working people around the world. Core elements would include:

1. A Global Green New Deal with sufficient global investment to create global full employment and make a rapid transition to a low-GHG future.
2. A system of international monetary regulation that allows countries to pursue national development without “beggar-your-neighbor” trade and monetary policies.
3. Reversal of the globalization-inspired “race to the bottom” so that economies at every level are encouraged to increase equality, worker rights, security, and sustainability.
4. A new standard for growth that would replace commercial transactions as measured by GDP with a new measure of social and environmental well being based on justice and sustainability.

But where is the power to enforce such a new strategy to come from? There are two new global movements that share with labor a strong interest in such a program.

One is the independent climate protection movement that emerged at the 2009 UN climate conference in Copenhagen as the global opposition to the corporate and national agendas that are leading to climate catastrophe. This movement brings together youth, the developing world, and all sane people and countries who care about the future of the world. As the daily news of intensifying climate catastrophe accumulates and sinks in, this movement is destined to become a dominant force in shaping the future of the world.

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The other new movement originated in Tunisia and Egypt and is now spreading around the world. Its global symbol has been Tahrir Square and its demonstrations have established “symbolic Tahrir Squares” from Mexico City to London and from Madison, Wisconsin to Madrid. It is a movement against domination by corrupt political and economic elites and for democracy. It is a movement against neoliberal austerity and for greater equality and justice. In every case labor has played an important role in fostering this movement.

These two movements have the potential to work with labor to change the balance of power that is currently preventing a just and sustainable exit from the Great Recession and the three-decade nightmare of global neoliberalism. But such collaboration will require the development of a common global program and a popular mobilization on a global scale. It will require us, in effect, to make the world one Tahrir Square.