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G7 Finance meeting in Tokyo: Unions call for aggressive and coordinated fiscal and monetary response to counter economic crisis

Brussels, 5 February 2008 (ITUC OnLine): On the eve of the Tokyo G7 meeting of finance ministers and central banks, ITUC, the European Trade Union Confederation and the OECD Trade Union Advisory Committee have called on the governments to back the IMF Managing Director Dominique Strauss-Kahn's call for a coordinated fiscal response to the economic crisis. The trade unions have also urged the European Central Bank to follow the Federal Reserve's lead and to take the necessary policy measures by cutting interest rates.

Faced with a global economic downturn, on 30 January Strauss-Kahn called for "timely and targeted fiscal stimulus" in a way that supports private consumption. The monetary reactions by central banks to the deepening of the global economic and financial downturn at the end of 2007 and in early 2008 were welcome but have proven insufficient. The crisis was triggered a year ago by bursting U.S. housing bubble and sub-prime crisis and the highly leveraged, opaque and un-regulated financial markets. Lowering central banks' lead interest rates or injecting liquidity in the banking system have allowed them to keep the system afloat. But confidence among financial market participants has vanished and banks barely lend money to each other. Household and corporate credit lending standards are tightening across all OECD and many developing economies.

The dangers of a deep recession in the US and across the OECD are real, with knock-on effects for many developing countries. The G7 Finance meeting on Tuesday needs to seriously consider the call by the IMF director. However, any discussion on 'fiscal stimulus' would need to be enhanced. Granting evermore business tax cuts - as seen in President Bush's US$ 150bn package - will not be sufficient.

For the unions, the G7 Finance Ministers should agree a coordinated strategy for broad-based and diversified demand side policies including support to wage growth. Wage stagnation is at the heart of the economic problems facing today's working families across the OECD. The share of national income going to wages has been falling for years around the world. On 31 January the OECD released figures showing that labour costs in industry fell for most major OECD economies in the third quarter of 2007. Ending wage stagnation would not be inflationary but supportive of growth. In Europe the recent surge in commodity and energy prices, and hence inflation, have put the purchasing power of ordinary workers under strain. Growth in developing countries should be lifted by debt cancellation and development assistance to enable people with a high level of unfulfilled needs to increase their consumption.

Governments must also address the structural imbalances that contribute to wage compression and that are the source of the current global economic and financial turmoil: reliance on asset inflation by central banks, the structural trade imbalances that have fuelled asset inflation and lack of adequate regulation of global financial markets.

The ITUC represents 168 million workers in 155 countries and territories and has 311 national affiliates. Website: http://www.ituc-csi.org.

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