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Spotlight interview with Peter Bakvis, director of the ITUC/Global Unions Washington Office

"The current crisis raises great challenges for the trade union movement"

Job losses, pressure on wages, mounting inequalities and poverty… The impact of the global financial and economic crisis on workers is huge. How is it possible that such a major crisis could arise? What lessons can be drawn? Peter Bakvis, director of the ITUC/Global Unions Washington Office, offers some responses.

What are the chief causes of the current crisis?

First and foremost, the deregulation of financial activities. The absence of regulation is not only a problem in the United States: it is even worse at international level, with the globalisation of the financial sector over the last few decades. Nothing has been done to place even minimal controls on the development of financial trade, on the ability of financial institutions to grant loans in another country, to develop so-called secure financial products that were in fact hiding high-risk investments, or to make massive and purely speculative investments, in derivatives for example, which ended up undermining the financial system as a whole.

Was the subprime crisis in the United States really the trigger?

If it hadn't been that, it would have been something else, but a bubble was, indeed, created, especially in the real estate sector. It wasn't unique to the United States, but it was particularly bad in this country. It was instigated by unregulated financial practices: it was in lenders' interest to see people paying more and more money for houses, to have them take out increasingly costly mortgages, with terms and conditions, such as variable interest rates, that the customers were not aware of. The system worked, until the day the bubble burst. House price inflation in the United States was completely detached from the real economy, from real wages, which are stagnating and have even been falling over the last ten years. The financial sector let people buy houses that were far beyond their means. They then sold the repayment commitment, these mortgages wrapped up like so-called secure products, to other parties around the world, such as Europe. That is how European financial institutions found themselves in difficulty. But there are other reasons behind this crisis, such as the fact that many shares were overpriced in relation to the real value of the companies. There was asset inflation, not only in the United States but in European countries too, which have now been hit by the bursting of this bubble.

Why did no one seem to anticipate the scale of the crisis? Even the recent winner of the Nobel economics prize, Paul Krugman, has admitted to berating himself "for not understanding the extent to which we have these financial domino effects" ...

It is, indeed, very damning for professional economists. The IMF and the OECD, despite the thousands of economists they have in charge of monitoring the world economy, did not see it coming. There was, of course, a few isolated economists here and there who called attention to that fact that what was happening in the real estate market was totally disconnected and unreal. But most economists work for the private sector, and while this system kept generating profits for their companies, they did not want to be the first to shoot the goose laying golden eggs.

Conversely, at the ILO and the UNDP, and in a few independent or trade union research units, some economists had underlined the imbalances between the financial economy and the real economy. But it was a small percentage of the profession.

Which workers are likely to be hardest hit in the medium and long term by the repercussions of this crisis? Will the impact be greatest in developed or developing countries?

Unfortunately, even with the emergency measures and the massive injections of funds we have seen in Europe and the United States over recent weeks, it seems we are heading towards a global recession. I think everyone is going to feel it, but in different ways. In industrialised countries, the financial crisis triggered in the United States is bringing the financial sector to a near standstill: the banks do not want to lend companies money in the absence of guaranties, which companies are not able to provide. It will not be long before this impacts on the real economy, industrialised countries' manufacturing sectors. We can expect to see a rise in unemployment in all these countries. As with every recession, there will be downward pressure on wages and other employment linked non-wage benefits. This is set to raise great challenges for the trade union movement: first, to resist the attacks, but also to propose alternative solutions to keep job losses to a minimum and to protect wages and other social benefits.

In the developing world, the financial crisis has come in addition to an already very present crisis, the food crisis. Workers in poor countries often spend over half of their income on basic foodstuffs, and these have seen huge inflation over recent years, reaching a peak around July 2008. These price rises have had exceedingly negative repercussions. An ILO study, for example, reveals that workers earning a basic salary in the textile industry of Bangladesh have seen a 20% fall in purchasing power solely because of the inflation of the price of rice. There are similar examples in many other poor countries. The price of staple foods was starting to fall in July, but we are not yet sure how the financial crisis is going affect foodstuffs.

In the same way as there is speculation on shares and in the real estate markets, there is also speculation on basic commodities, including foodstuffs. Large quantities of rice are bought based on speculation that the price will rise within a few months, which effectively results in pushing the price up. Low paid workers in poor countries, who depend on these products, are very badly affected by this speculation. The financial crisis of the last few months is therefore aggravating the fall in purchasing power in these countries.

Which countries are likely to be least affected by the crisis?

Rather interestingly, it is thought that the least globalised countries will be best able to isolate themselves from the crisis. At the beginning of October, the IMF released its forecasts for 2009, in which it studies countries like India and China, which export a great deal but are also well protected. The two countries still have substantial controls on imports, they place strict conditions on foreign investors, and their capital markets are tightly controlled and regulated. Growth in India is expected to go from 8% this year to 7% in 2009, a fall that is by no means comparable with that of industrialised countries, which can expect to see negative growth. Growth in China is forecast to go from 10% in 2008 to 9% in 2009. The growth rate in African countries does not appear to be much affected either (the price of foodstuffs is, however, strongly affecting the people of Africa, especially those with low incomes). The picture is quite different in countries that rely heavily on the markets of the industrialised world. In the case of Mexico, for example, which has had a free trade agreement with the United States since 1994, a growth rate of 1.8% is forecast for 2009, relative to 2.1% this year, and 3.2% in 2007.

Having said that, there is generally greater demographic growth in developing countries, so they need higher economic growth just to maintain the level of income per inhabitant and to create sufficient jobs. In Mexico, it is estimated that absorbing newcomers into the labour market takes 3% of the growth in GDP each year.

We can therefore expect to see job losses and downward pressure on labour costs in developing countries too, and the impact will be felt most strongly in the countries most reliant on the export markets of the industrialised world.

We can also expect to see a fall in revenues from tourism and development cooperation in the poorest countries…

Yes, Oxfam has already reported that three major European countries (Spain, France and Italy) have announced plans to freeze or reduce development aid. In the United States, the presidential candidates have also spoken of this. Other countries will perhaps go in the same direction. It is clearly the poorest countries that will be the hardest hit, those who depend on aid in emergencies, for infrastructure projects, for the development of health systems, etc..

Yet the G8 summit held in 2005 in Gleneagles had committed to doubling aid for Africa by 2010…

We have drawn attention to the fact that these commitments were not being met in several countries. It was already almost certain before the financial crisis that several countries would not fulfil their commitments. And now, a number of countries have announced that they are going to cut this aid.

The impact will be even stronger given that there is virtually no social security in these developing countries…

That’s right, most workers around the world do not benefit from any kind of social security net. It is a major problem to be solved. Social protection has even been eroded in industrialised countries. If the World Bank did its job properly, it would help developing countries to provide social protection to people without it. It is one of the ILO's campaign priorities, but the ILO does not have the financial resources to support large-scale social security programmes, whereas the World Bank does. Yet it generally places more emphasis on privatising existing public schemes rather than extending them to cover workers without protection.

Will migrant workers be sent back to their countries as a result of the crisis?

Indeed, there will be less jobs on offer for migrants, which will directly impact on their countries of origin where entire communities depends on the remittances these workers send home. Countries like Mexico and the Philippines, where a large proportion of the workforce is employed abroad, will be particularly affected. This is one of the reasons why Mexico stands out as one of the developing countries with the smallest expected growth rates. In the Philippines, 4% growth is forecast for 2009, in contrast to the 7% growth rate expected for the developing nations of Asia as a whole, mainly due to an expected fall in remittances from migrant workers.

Is this drastic global crisis likely to seriously call into question triumphant ultra-liberalism, like the economists of the Chicago School?

As regards the great "thinkers", the ideologists of neoliberalism (I see them more as ideologists than thinkers), I don't think they're about to change their tune. What really matters is what the decision makers, those who draw up and implement policies, do. Major changes are to be expected on that front. The G8 countries, for example, have recognised the need to review the entire regulatory system, the international financial system. That's new. We are hearing the same thing from the IMF, which until recently was preaching market liberalisation almost across-the-board and has now suddenly admitted that the regulatory system is seriously flawed. IMF Director General Dominique Straus-Kahn has been expounding this view since the beginning of the year. If he pursues this line of thought to the end, it may contribute to reversing the course of neoliberalism that has ruled for at least a quarter of a century. This is going to require the involvement of the international trade union movement: those currently being consulted on how to review the financial regulations are, in most cases, the very same people who placed the global economy in the state it is now, including people from Wall Street. The trade union movement and its allies must strongly press the authorities to avoid letting the ideologists of deregulation define the new regulatory framework, which would be nonsensical. We have to insist on being represented at the negotiating table, not only to set out the new regulatory framework for the financial system but also to ensure an adequate revision of the tax systems and social programs and to tackle the issue of inequalities in our societies.

How can trade unions increase their influence over these major institutions during the coming months?

In the past, trade union organisations, both national and international, were the first among civil society groups to underline the dangers of "financialisation". The ITUC published an excellent report on this issue just over a year ago (1). Besides drawing attention to the fact that the efficient running of the real economy was increasingly under threat owing to the prioritisation of the financial sector, we underlined the danger of allowing workers' income to stagnate and inequalities to rise in countries like the United States, as well as in a number of developing countries. Such a growth model was unsustainable.

We have been highlighting these dangers for quite some time. The time has now come to set out our demands very clearly. Every possible resource will have to be deployed, both nationally and internationally, to push them forward. Firstly, a rescue plan will have to be developed for the international economy and the jobs that depend on it. An adequate regulatory framework will then have to be established, in line with the realities of the 21st Century. The efforts should not be limited to a short-term proposal to rescue the failing financial sector; a development model must be proposed that respects workers and all low-income populations, that offers basic social protection to all, and that provides for increased purchasing power as economic activity grows.

The World Bank's "Doing Business" report is an example of all-out liberalisation…

"Doing Business" advocates the complete deregulation of labour markets, as well as the elimination of minimum wages, legal recourse in case of dismissal and rules on working time. This publication was already unacceptable prior to the crisis. This brings us to the need to pinpoint a now obvious contradiction: one cannot, on the one hand, recognize that the deregulation of the financial market has led the global economy to the brink of collapse, as seems to be the case of the president of the World Bank… at the same time as preaching in favour of deregulating all other markets. This contradiction appears all the more blatant and unacceptable to the workers, who are the first to be affected by the fallout of this deregulation.

Certain issues are being debated at the IMF, is the same also true at the World Bank?

Among the directors of the World Bank, those who represent the countries, yes, these issues are being called into question. Inside the World Bank, a number of officials claim they do not favour the approach of all-out deregulation, but they don't make their views known in public, because "Doing Business" is an official publication of the Bank. Even the US House of Representatives adopted a resolution in June that slams Doing Business's drive to eliminate any kind of labour regulation. The current president of the World Bank seems to be impervious, however, to any opposition.

Will future IMF loans be subject to the usual terms and conditions?

The IMF recently announced a new programme of loans to assist certain countries in difficulty, which would be exempt from the usual conditions. It remains to be seen how the IMF intends to implement it. In the meantime, standard conditions will apply to countries who have recently received emergency loans (Hungary, Iceland, Ukraine, etc..). One of our demands is the lifting of their conditionality: partly to make the loans more rapidly accessible but also because history has shown that the conditions imposed by the IMF have often had negative impacts. For instance, during the Asian

crisis, the IMF granted loans to countries like Thailand and Indonesia on the condition that they cut public spending, including social spending, which led to an increase in poverty. The policy imposed on Indonesia included letting banks go bankrupt. All this led to prolonging the crises in these countries. Exactly the opposite is now happening in developed nations: governments that are, in principle, in favour of liberalisation and privatisation are intervening and nationalising part of the banks' assets.
We therefore need an in-depth revision of the conditions laid down by the developed countries that control the international financial institutions but contradict the policies they preach when faced with the same problems at home. It is essential that countries that receive assistance from the IMF be allowed to implement the same types of rescue measures and not be subject to obligations such as reducing public spending in other areas or allowing the banking sector to collapse.

Could the development of green jobs be jeopardized by this crisis?

If the immediate reaction is to make across-the-board budget cuts then yes, there is a threat. But if the aim is to strengthen our positions in the medium term, the emphasis has to be kept on maintaining and stepping up public spending on the green economy.
Going back to economies so dependent upon fossils fuels is no longer an option. Eventually, the economy will have to be restructured. And the best time to do it is when this overhaul can be combined with a job creation policy. Some of the world's industrialised nations did this with a degree of success in the thirties. In the United States, for example, the famous "New Deal" policy built the infrastructures that laid the foundations for the modern post-war economy. The Americans implemented it because there was manpower and basic products available that were not being used because of the crisis in the financial sector. It's the same now. Let's join together to adopt policies that contribute to accelerating the investments needed to build the modern economy of the 21st Century, to develop the green economy we need so much. They would help us, at the same time, to counter the immediate fallout of the crisis through the direct creation of jobs.

Interview by Samuel Grumiau

(1) http://www.ituc-csi.org/IMG/pdf/ITUC_casino.EN.pdf