**Riddle 1:** When is a recovery not a recovery?

**Answer:** When profits are at record levels, corporations are sitting on $1.7 trillion in cash, and unemployment is still at 9.2% and rising.

**Riddle 2:** When is a stimulus not a stimulus?

**Answer:** When it’s less than one-fourth the size of the hole in the economy it is intended to fill.

**Riddle 3:** When will it be possible to rebuild the economy?

**Answer:** When the U.S. labor movement joins with community and international labor allies to demand global economic development, jobs, and rising wages.

**When the U.S. housing bubble burst in 2008, putting jobs first was a no-brainer.** Global unions demanded immediate action. The G-20—the group of 20 nations charged with coordinating a global response to the crisis—agreed. Governments rushed to do stimulus spending. The worst was prevented.

Then in the spring of 2010 the Greek debt crisis hit. Markets plummeted. The G-20 pulled back and told countries to cut spending. Greece, Ireland, Spain, Portugal, and the U.K. have since enacted austerity packages with drastic spending and wage cuts. ❯❯
A major obstacle to struggle is the widespread belief—even among many union members—that there is little that government can do besides cut spending, and that only the private sector can create jobs.

Yet the fact that so many are frustrated with government over the high unemployment is evidence that on some level people do believe government action is not only possible but necessary. A rank-and-file economics needs to channel that frustration and nurture that belief. It needs to explain why the “free market” isn’t going to create the jobs that are needed. It needs to educate people about the real causes of the crisis. And it needs to convince community and union members that a positive agenda for long-term growth still exists.

First, we have to arm ourselves by educating ourselves.

**The Private Sector Can’t Do It Alone**

Here in the United States, people are surrounded by the narrative that only the private sector can create jobs. Even those who acknowledge that we need to rebuild our infrastructure and that rebuilding would create jobs are likely to say that we can’t afford public investment right now. Instead, the argument goes, we should cut taxes and let corporations create the jobs and the investment we need: too much public spending got us where we are; every tax dollar spent by the government is one less dollar business could be used to create jobs.

There are three main responses to these arguments.

First, corporations already have enough cash to invest; tax cuts for corporations and the wealthy aren’t going to lead to more job creation.

The Bush tax cuts didn’t boost job creation, they didn’t boost wages, and they didn’t boost investment in the real economy. What they boosted was corporate profits and the deficit. Today businesses are sitting on record profits and $1.7 trillion in cash that they don’t want to invest. What investment is being done is aimed at boosting productivity and cutting labor costs—that is, cutting jobs. The jobs problem is not due to businesses not having enough cash to invest. Further enriching corporations with tax cuts isn’t going to fix it.

Second, the deficit didn’t cause the crisis; the crisis caused the deficit.
Calls to cut government spending in order to spur growth ignore the fact that the economic crisis we’re in has nothing to do with government spending. The deficit didn’t cause the crisis. The crisis caused the deficit. The spike in the deficit is principally due to the drop in revenues as people lost jobs and businesses lost sales. What additional spending we have done in the past three years—for the stimulus program and for TARP—was temporary. And as economist Dean Baker from the Center for Economic and Policy Research (CEPR) has calculated, in the long run the U.S. budget deficit would virtually disappear if it brought its health-care spending in line with other industrialized countries, all of which have universal health coverage.

Third, there are times when government spending is essential to help the economy over a crisis and when failure to spend will make the deficit worse.

In the short term, the best way to reduce the deficit without increasing unemployment is to recover from the crisis, not cut spending and create more joblessness while the economy is still weak. This is a lesson we should have learned from the last great global economic collapse, the Depression of the 1930s.

Before the 1930s, most economists believed that economies recovered naturally from recessions: in a downturn, either prices would fall and stimulate spending, or wages would fall and stimulate hiring, or both. But when consumers and businesses stopped spending during the Depression, falling wages and prices made the economy worse. It took the New Deal to get the economy growing. From 1933 through the end of the Depression, GDP rose and fell with government spending. By 1936 unemployment had fallen from 23% to 9%. But in 1937 unemployment rose again after Roosevelt cut the budget to reduce the deficit. After that it took massive spending for World War II to return the economy to full employment.

**Stimulus Isn’t Enough Either**

Given the lessons from the Depression of the 1930s, why didn’t the Obama stimulus plan work better than it did?

One reason is that the housing bubble drained nearly $1.4 trillion in annual spending, yet the Obama administration proposed a stimulus that was only $825 billion spread over several years. Congressional Republicans then reduced that number to $727 billion. They also cut proposed spending for infrastructure, green energy, and aid to states so they could increase tax cuts, even though tax cuts are known to create fewer jobs.

But the deeper reason the Obama stimulus failed is that the administration misunderstood the nature of the crisis. The country needs more than stimulus spending for recovery. It needs a sustained program for rebuilding the real economy and raising wages. The problem isn’t just that cutbacks over the past decades have left us with a shortage of over two trillion dollars in infrastructure spending. It’s that growing inequality has created too big a hole in demand.

During the boom following World War II, the United States regularly used government spending to ease recessions. The idea was that instead of waiting for unemployment to push down wages in the hopes that low wages would boost hiring, the government should boost job creation, and hence wages, by plugging holes in private consumption with public expenditures.

This worked because during the post-war boom, wages as a matter of policy rose with productivity. Recessions were due to short-term policy missteps or the “business cycle”—production temporarily getting ahead of demand. When that happened, businesses made fewer profits and investment would fall. Government spending would boost demand. And demand would spur investment.

In the current economy, stimulus spending can’t accomplish what it did in the post-war economy. Not only have we just had a massive financial crisis rather than a dip in the business cycle, but the crisis...
happened after decades of stagnating wages. Since the 1980s, demand has been based not on rising wages, as it was in the post-war era, but on household debt backed by the rising prices of assets such as stocks and real estate.

With the bursting of the housing bubble, 28% of homeowners are now under water. Under these circumstances, households that get a temporary bump in disposable income from a stimulus package are as likely to pay down debt as they are to increase spending. Even households that aren’t in debt may save instead of spending because of fear of unemployment. The economy may get a small boost. But businesses correctly see that demand isn’t there and hold back from investing. The economy remains in a hole unless the government embarks on a sustained program of rebuilding wages, jobs, and the real economy.

How We Unlearned Equality
To understand what it will take to rebuild the economy, we have to understand the strength of the post-war economy and how it was reversed.

The great economic lesson of the post-war era was the importance of equality for economic growth and stability. The period before the Great Depression had been marked by steep inequality, debt, and bubbles. Following World War II, the governments of the United States and most of Western Europe made commitments to full employment and rising wages in order to avoid another similar collapse. Global growth reached record rates. Inequality declined. And there were no serious global financial crises.

In the United States, real hourly wages roughly doubled during this period. The policies that made this wage growth and stability possible included corporate acceptance of collective bargaining; a strong social safety net; high quality public services; regulation of business; progressive tax systems—where corporations and the wealthy are taxed at higher rates—to help pay for public services and the cost of regulation; deficit spending to stimulate the economy during economic downturns, thereby preventing wages from falling; and a willingness to lower interest rates when unemployment rose.

Corporate tolerance for these pro-labor policies was transitory and grudging: it lasted as long as the extraordinary post-war levels of profit lasted. Once global profit rates slowed, corporations fought to reverse wage growth and restore profit rates under the guise of the policy mix that came to be known as neoliberalism. They

Going Global: Coordination, not Competition
Jobs debates tend to focus on national needs. We’re told repeatedly that competition is the key to a country’s economic success: increase productivity, decrease labor costs, hone our technology, and we’ll beat out the other guy to get the jobs. But the kind of development the world needs for recovery isn’t a zero-sum game. U.S. labor needs healthy manufacturing and wage growth in other countries every bit as much as we need a revival of manufacturing and wages in the United States.

Achieving the objectives proposed in this article—rising wages, demand-led growth, and global development—will require both struggle and international coordination. Labor is familiar with many of the economic tools that will be needed to achieve these core objectives, but it is used to applying them in a national context only, not advocating for their use as part of a global development agenda. Here are a few of the most familiar tools that will be needed and what labor can add by pressing for international coordination:

Fiscal and monetary policy to support employment growth. Governments need to return to wider use of fiscal and monetary policy to stimulate demand and put a floor on unemployment. But in a global economy, stimulus spending can end up “leaking” out of a country when consumers buy imports. Stimulus is most effective when countries act together so one country can’t “steal” demand from another by keeping its wages and demand low while another country raises wages and expands demand.

Labor rights and employment regulation to raise wages. Using fiscal and monetary policy to put a floor on unemployment can help keep wages from falling. But wage growth needs a vigorous commitment to collective
attacked labor rights, the minimum wage, and unemployment insurance. They pushed to reduce taxes on corporations and the wealthy, shifting the tax burden to working people instead. They lobbied to privatize public services and deregulate industries—opening opportunities for profits, denigrating the role of government, and increasing the likelihood of financial crises. The rhetoric of balanced budgets and self-reliance replaced support for a strong safety net and stimulus spending to stabilize wages during recessions. And interest rate hikes were used to minimize inflation—now touted as a primary threat to living standards—by raising unemployment and keeping wages low.

There were changes in international policy as well. After World War II, U.S. trade policy had focused on opening up markets for U.S. exports, which meant not only higher profits but higher domestic employment. Under neoliberalism, boosting profits meant moving production to lower cost areas overseas and exporting back to the United States. It meant cutting jobs at home as well as and pushing down wages abroad.

In short, while the post-war strategy supported rising incomes in the United States and much of the rest of the world, the strategy from the 1980s onward was built on stagnating or falling wages for workers generally. The result was that the global rate of profit rose while hourly wages stagnated or fell, with few exceptions, throughout the globe—not just in the United States and developing countries, but in Europe as well.

To compensate for stagnating purchasing power, U.S. consumers borrowed, and the finance industry made credit more available: between 1981 and 2007, the last year of the housing bubble, household debt doubled as a percentage of GDP. The U.S. consumer became the consumer of last resort for the world. And the global economy balanced precariously on U.S. consumer debt and the dollar.

By the early 2000s, balancing on U.S. consumer debt meant balancing on the housing bubble: dollars exited the country to pay for imports and were recycled back, not as demand for U.S. exports, but as demand for investment in U.S. mortgage securities and other financial assets. The world found out how painful a balancing act this was when the U.S. housing bubble burst, homeowners defaulted on mortgages, and the banking system nearly collapsed, cutting off the supply of easy credit. Global demand plummeted. It hasn’t recovered since.

Tax reform to provide adequate revenues. Tax reform is needed to ensure that the wealthy and corporations pay their share of the costs for the economic crisis, and to provide revenue for rebuilding and development. Corporate tax reform in particular needs to be coordinated to prevent corporations from gaming differences in countries’ tax rates by relocation or transfer pricing. Since the crisis began, a vigorous global movement has sprung up for a financial transaction tax, which could raise hundreds of billions globally from the finance industry.

Industrial policy to nurture high-wage manufacturing sectors. Ultimately, strong job growth is needed to support strong wage growth. Countries that have developed successfully—including the United States and Britain in their early years, Europe and Japan after World War II, the Asian Tigers in the 1980s, and now China—have done so by using industrial policies to nurture infant industries and growth. These policies have included such measures as regulation of the movement of capital in and out of the country; government investment in infrastructure, education, research and development; requirements that corporations purchase inputs locally and train local workforces; and facilitating the availability of credit for key industries and sectors. Since the eighties and nineties, neoliberal policies and trade agreements have sought to ban many of these policies and make countries dependent on transnational corporations instead. International labor campaigns to eliminate these bans will be critical for reversing this dependence and the advantage it gives corporations over labor. Freeing countries to use industrial policy will in turn be critical for the growth of green manufacturing and energy production as the world grapples with climate change.
**Tackling Inequality Head-on**

In its own terms, neoliberalism worked: it increased profits, suppressed wages, and shifted tax burdens from the wealthy to lower income workers. Proponents have seized on the deficits created by the crisis to slash social spending, helping insulate against future tax increases for those at the top.

The contradictions should be obvious to all: suppressing wages suppresses demand, and balancing consumer spending on debt rather than wages destabilizes the U.S. economy and the global economy. Cutting government spending before we rebuild private demand will throw the country and the world back into recession. It will keep U.S. unemployment at Depression-era levels. And it will result in larger, not smaller, deficits.

Yet the contradictions don’t register because people have a deep-seated belief that the very inequality that is crashing the system is essential to growth and jobs—that by limiting inequality we are limiting our ability to generate wealth.

To build momentum for a jobs- and wage-based recovery, the labor movement has to tackle the belief in inequality head on. It needs to show that the jobs crisis can only be addressed by rebuilding and rebalancing the national and global economies with higher wages and greater equality.

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**Rebuild and Rebalance**

A broad consensus is developing within the global labor movement on how this rebuilding and rebalancing needs to take place. There are three main goals:

- **Raise wages, raise demand.** The most pressing economic problem today isn’t government debt or deficits. It’s the hole in demand left by 30 years of wage suppression, and the danger of another period of bubble-fueled growth. To be sustainable, demand has to be based on wages, not on household debt. Inequality isn’t just painful for workers. It’s destabilizing for the global economy. Correcting inequality isn’t a matter of charity. It’s a matter of economic survival.

- First and foremost, rebalancing the global economy means correcting the global wage imbalance by creating jobs and raising wages. This imbalance isn’t primarily about high- versus low-income countries. It’s about the share of national incomes going to workers wages and the share going to profit. Since 1980, the share of income going to labor has fallen steadily in all regions of the world, with the possible exceptions of East and Central Asia. The decline hasn’t been due to shifts to low-wage occupations. It hasn’t been limited to low-wage countries. And it has occurred at all income levels. It’s also getting worse. In the current recovery, U.S. corporations captured a whopping 88% of the growth in national income through the beginning of 2010, while only 1% went to labor. Compare that to the recovery after the 1991 recession, when 50% of the growth in national income went to labor.

- **Replace growth based on low-wage exports with wage- and demand-led growth around the world.** As U.S. corporations moved overseas in the eighties and nineties, the U.S. government used the carrot and the stick—as well as its powers over the IMF and the World Bank—to persuade destination countries to cut government spending, let wages fall, remove regulations on movement of foreign capital known as “capital controls,” and “devalue” currencies to artificially force down the price of exports. The result was intensified global competition and the emergence of an “export-led” model of growth: economies grew not because rising wages grow domestic demand, but because suppressed wage growth (or falling wages) pushed down the price of exports. Regardless of their income level, countries that adopt the export-led model suppress both wage growth and demand for imports. They export more than they import. And
they run permanent trade surpluses while their trading partners lose jobs and run deficits.

European countries that are sharply reducing deficits to deal with the current crisis and letting wages stagnate or fall are turning to the export-led growth model in hopes of becoming “more competitive.” This kind of “competitiveness” as a primary strategy for global growth isn’t the solution for lagging incomes. It’s a recipe for an intensified race to the bottom and permanently depressed wages. It’s also impossible for a majority of the world to “export” its way out of the crisis and back to growth; for every country that exports, another must be able to import. The solution, whether in Europe or the developing world, is to trade in the model of export-led growth for one based on rising wages and domestic demand.

Create a global model for economic development and decent work. The idea of stimulus spending is that it “jumpsstarts” a cycle of demand, investment, and job creation when a basically healthy economy stalls. Today, living on the “other side” of the export-led model the United States helped create, U.S. consumers are too mired in debt, corporations too addicted to outsourcing and cutting jobs and wages, and the country too far behind in infrastructure spending for this kind of stimulus to be effective. We need to rebuild, not “jumpstart,” the U.S. economy. The same is true overseas. Developing countries mired in the export-led model also suffer from a long-term lack of public investment and infrastructure.

To replace the export-led growth model unions need to demand a global agenda for decent work. This in turn requires a program for sustainable development that includes support for public services such as education and health care, funds for infrastructure, and support for sustainable manufacturing and green energy in both advanced and developing countries. The jobs and wages created by this investment will in turn build the base of demand needed for sustained demand-led growth.

Closer Than We Think

There are ways out of the current jobs crisis. Budget-cutting, austerity, and intensified wage competition aren’t among them. Unionists need to keep their eyes on the ball: The chief barrier to recovery is the lack of global demand. A main cause of the current crisis is a multi-decade, multi-pronged strategy of wage suppression across the world. And the response must include global coordination for economic development—a global New Deal.

Governments committed to neoliberal policies won’t be the prime movers behind a global New Deal. That’s labor’s job. So is forging the ties with other labor movements that will be needed to carry on the struggle both nationally and internationally. (See sidebar, pp. 16-17.)

This struggle must take place country by country. Over the past decade U.S. unionists have fought successful battles for living wage ordinances. They have won community benefits agreements from corporations receiving public funds, locking in pledges to create jobs and respect labor rights. They’ve renewed the battle for single-payer health care and made common cause with immigrant workers working at the margins of the U.S. economy. There is crucial organizing for a national infrastructure bank, withdrawal from Iraq and Afghanistan, putting a floor on foreclosures, and taxing the wealthy. Learning new strategies is not going to be the hard part of U.S. labor. Nor will forging international linkages with unions in other countries—a process which will deepen understanding of common problems and exponentially increase the energy and clarity of struggle.

The hard part will be unlearning the indoctrination we’ve received about the crisis, the role of government in the economy, and the free market. Once we do that, we can build successful movements at home and abroad. We’re closer than we think to the army of rank-and-file economists that we need.

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