Documentation

AFL-CIO hits brutal effect of IMF austerity

The AFL-CIO has gone on the offensive against the International Monetary Fund's brutal policies in Asia and around the world. Federation President John J. Sweeney delivered two important addresses—on Jan. 22 at the National University in Mexico City, and on Jan. 31 at the World Economic Forum in Davos, Switzerland. The AFL-CIO Executive Council also issued a statement opposing the IMF's policies in Asia, released at their semi-annual meeting in Washington, D.C. on Jan. 29. Though stopping short of calling for the IMF's destruction, the statements are hard-hitting and put the American labor movement squarely on record in opposition to the IMF's murderous policies. We publish excerpts here.

Sweeney in Mexico

AFL-CIO President John J. Sweeney, address to National University, Mexico City, Jan. 22:

. . . Over the past decades, multinational corporations and banks organized a market for our global neighborhood. Capital and currencies have been de-regulated. Global corporations circle the globe in search of cheap labor. . . . Governments have lowered trade barriers, dismantled regulations, and privatized resources.

The promise of this global market is universally advertised. . . . For the last decade or so, the Asian tigers—the "newly industrializing countries" of Taiwan, South Korea, Indonesia, Singapore, Thailand, Malaysia—have been held up as proof of that promise. . . .

Today, in what is the year of the tiger in the Chinese calendar, that promise has been shattered. The same shock that staggered Mexico in 1995 now afflicts much of Asia. The emerging economies are now submerging in a sea of red ink. Once again, a speculative bubble has burst. Capital is fleeing. Currencies and stock markets are plummeting. The immediate crisis may be stemmed, but the real cost—bankruptcies, mass unemployment, a crushed middle class, political and economic upheaval—is yet to come.

Here in Mexico, events in Asia must seem like the recurrence of a bad nightmare—although some have suggested that the response to the peso crisis in 1994 offered a successful model for Asian nations to follow.

Successful? Well, yes, investors were reassured. The holders of tesobonos were repaid. The U.S. Treasury was repaid early and in full, with interest on the dollar. Investment has started to come back into Mexico. But to call the bailout a success recalls the infamous Brazilian Finance Minister in the 1970s who, when asked about the economy of that country, replied, "The economy is great; it is the people who are hurting." . . .

Unfortunately, the International Monetary Fund is applying the same remedy to Asia today that was applied to Mexico yesterday. The IMF—emergency room doctor for the global economy—knows but one cure for all afflictions. It seeks to restore the confidence of investors and speculators, to placate the fickle barons of finance, by bailing out those whose loans are at risk. The bill for this treatment is then passed on to workers there and here—in depressed wages, lost jobs, crushed hopes.

But as we saw in Mexico and now again in Asia, this standard cure feeds the very disease that it claims to heal. The Fund is like the medieval doctors at the time of the Black Plague who applied the only remedy that they knew—bleeding their patients—and thus spread the contagion they intended to contain.

U.S. Treasury Secretary Robert Rubin has wisely warned of the "moral hazard" of the IMF acting to bail out reckless speculators when their bets go bad. In the new global casino economy, we are essentially telling the biggest gamblers that they can pocket their winnings and the house will cover their losses. This is an invitation to greater folly, not greater responsibility. . . .

This immoral hazard cannot be justified and can no longer be ignored. This week, Pope John Paul II graces this hemisphere with his trip to Cuba. It is worth remembering his words in the 1991 encyclical *Centissimus Annus*. It is possible, he warned, "for the financial accounts to be in order and yet for the people . . . to be humiliated and their dignity offended." . . .

This immoral hazard—as the crisis in Mexico and Asia surely teaches—is not only bad ethics, it is bad economics. George Soros, the billionaire hedge fund operator who knows the markets as well as anyone, calls this the capitalist threat.

Look around the world. Russia is plagued by a sort of gangster capitalism. Africa is written off by corporate planners. Japan is mired in recession. Europe has been stagnant. The Asian tigers are in crisis. Today even Alan Greenspan, the conservative chairman of the U.S. Federal Reserve, the most cautious of central bankers, speculates openly about the threat of deflation—of falling prices spiraling into a global depression. . . .

It is not sufficient to careen from crisis to crisis, leaving ruin in the wake. We must change course. The answer surely isn't to calm capital but to corral it. Not to devalue currencies competitively but to regulate them sensibly. Not to enforce austerity but to spread growth. To make corporations more accountable and to empower workers and democracies. . . .

Dr. Martin Luther King argued that we had to build a world brotherhood if we were to prosper in the world neighborhood. It is time for a new internationalism—an internationalism defined not from the top down, but from the bottom up. . . .

Now, in the wake of Asia's collapse, the new internationalism takes on new urgency. The global market must be regulated before it collapses from its own excess, if not in this crisis, in the next or the next after that.

This will happen only if working people across the globe come together, stand up and fight. . . . I stand before you today because the labor movement in the United States decided not to petrify and perish, but to change and grow. We are organizing at a scale and pace that are unprecedented. . . .

We will join with unions across the globe to define a common agenda that challenges the moral and immoral hazards of the global marketplace, and abandons the folly of the deregulated casino economy. . . . A tidal wave is gathering of people demanding simple justice. When working people come together across the boundaries of culture, language, race and religion, we can win.

There are those who say, "be patient, give the economy time and things will get better." But time, as Dr. King taught us, is neutral. It can be used constructively or destructively. Human progress, he taught, "never rolls in on the wheels of inevitability. It comes through the tireless efforts and the persistent work of dedicated individuals." It comes from a passionate commitment to justice and a willingness to fight for what is right.

Together we can build a world in the image of our oldest values and our bravest dreams. A world where children strengthen their minds in classrooms, instead of straining their muscles in mines and mills. A world where every man and woman can labor in dignity. A world neighborhood transformed into a world brotherhood. Join us. It is time to begin.

Sweeney in Switzerland

At the World Economic Forum's 1998 Annual Meeting in Davos, Switzerland, on Jan. 31, Sweeney was introduced by Joseph Gorman, who put the following question to him: "The U.S. economy is now the 'model' for job creation. At the same time, we have all seen its social downside. Labor seems at a loss to address this problem. Can the negative social impact be reduced without compromising the efficiency of the model itself? Does labor really have a role in this process?" Here are excerpts from Sweeney's reply.

. . . Does labor have a role in defining the future? In the United States, ask the opponents of the minimum wage. Or the management of United Parcel Service. Or the proponents of fast track trade accords that ignore labor rights and environmental protections.

Let us be very clear. If labor has no role, democracy has no future. Social justice does not "compromise the efficiency of the model." It is essential to its survival. If this global economy cannot be made to work for working people, it will reap a reaction that may make the Twentieth Century seem tranquil by comparison.

We meet at an historic turning—one that everyone in these meetings must see. The long effort to build the global market has succeeded. Capital and currencies have been deregulated. Great corporations have built global systems of production, distribution, marketing. Barriers have been dismantled. Technology's miracles are turning our world into one neighborhood.

But the turmoil afflicting the Asian economies sounds a dramatic alarm. The question now is not how to create the global market, but how to put sensible boundaries on the market that already exists. How to make the market work for the majority and not simply for the few. In this new effort, labor and other democratic citizen movements will and must play a central role.

Look around the world. Japan mired in recession, Asia in crisis that China still faces. Russia plagued by a kind of primitive, gangster capitalism, Europe stagnant, Africa largely written off by global investors, Latin America adrift.

The U.S. is hailed as the great "model." Our prosperity is unmatched; the dollar is strong; our budget balanced. Unemployment and inflation are down and profits are up. But, most working people in the United States today labor longer and harder simply to hold their own. One in four children is born to poverty. One in five workers goes without health insurance. The blessings of prosperity have been largely captured by the few. Inequality is at levels so obscene that New York investment houses this year warned executives not to talk about the size of their bonuses.

And now, the Asian nations are forced to export their deflation to the U.S. Our annual trade deficit will soar towards $300 billion. Over 1 million U.S. workers are projected to lose their jobs. Wages, only now beginning to recover, will once again be depressed. And this is the "model" in the best of times.

The current collapse calls into question not simply Asian practices, but the global system itself. As Korean President Kim Dae Jung has said, authoritarian systems in Asia lived a lie. But their crony capitalism was bankrolled by the reckless high rollers of the global casino, including Japanese, European and American banks and investment houses.

The response to the crisis reveals the limits of the current arrangement. Conservatives say, "Let the market solve the problem." But since the Great Depression, no sensible leadership would take that gamble. The IMF is called in to stop the hemorrhaging. It bails out the speculators and enforces austerity on the people. Its prescription reinforces the very affliction it seeks to cure.

Treasury Secretary Robert Rubin has wisely warned about the "moral hazard" of bailing out profligate speculators and banks.

But too little has been said about the "immoral hazard" of forcing working people across the world to pay the price—in layoffs, declining wages, and increasing insecurity.

I have just returned from Mexico, which has been presented as a "success" for Asians to follow. There, speculators and bondholders had their losses covered. But some two million workers lost their jobs. The middle class has been crushed. Wages lost over half their value. Environmental poisoning is worse than ever. Political violence is spreading. Crime is spiraling out of control. Few nations can weather this form of success.

This global system broadcasts its stark contrasts—of untold wealth for the few and growing insecurity for the many, of laws that protect property and expose people, of liberated capital and repressed workers. The inequities are indefensible ethically, but they are also unsustainable economically—as U.S. Federal Reserve Chair Alan Greenspan suggests with his warnings about deflation.

I suggest to you that we must usher in a new era of reform. One that seeks not more deregulation, but greater accountability. Not further unleashing of speculative capital, but channeling of real investment. Not greater licence for corporations, but empowerment of workers and citizens. . . .

At the beginning of this century, the industrial revolution created new promise and glaring inequities. It took many decades—and revolutions, wars, and a Great Depression—to elaborate the protections that saved that system from itself. Now at the beginning of the 21st century, the global economy poses the same challenge. Let us hope we need not relive the horrors of the past to reach its promise for the future.

AFL-CIO Executive Council resolution

This Resolution on the Asian Financial Crisis was passed on Jan. 29 by the AFL-CIO Executive Council semi-annual meeting in Washington, D.C.

The financial crisis now roaring through East Asia will have profound consequences for working people all over the world. Deep currency devaluations, in conjunction with austerity programs, will cut wages and purchasing power in South Korea, Indonesia and Thailand. The United States will be pressured to act as importer-of-last-resort, absorbing cheap Asian goods while at the same time Asian markets for our exports dwindle.

In the aftermath of the crisis, the U.S. trade deficit is projected to grow by about $100 billion in 1998, resulting in a loss of approximately 1 million jobs (or potential jobs), most of them in the better-paying manufacturing sector.

Without fundamental changes in the structure of international financial markets and the institutions that regulate these markets, we can expect continued volatility and future crises of growing severity. The present moment of crisis is the time to press for necessary changes in the international financial system, particularly in the conditions imposed by the International Monetary Fund (IMF) in exchange for the "bailouts" it gives to countries that have exhausted all other sources of credit. The United States should condition further contributions to the IMF on fundamental changes in the IMF's program.

The clout and leverage exercised by the IMF must serve a broader set of social and economic goals. Currently, the IMF defines its mission narrowly, as protecting the interests of international capital. The IMF requires debtor governments to raise interest rates, cut public spending, deregulate financial markets, and weaken labor laws to facilitate massive layoffs and deep wage cuts. These terms may solve some short-term credibility problems with foreign investors, but will necessarily exacerbate the tensions, inequality, and instability of the global economy. Such policies are short-sighted and must be fundamentally altered.

The United States, which is the single largest contributor to the IMF, must use every means at its disposal, both formal and informal, to change the way the IMF operates. The AFL-CIO will support members of Congress in efforts to assure that IMF programs reflect the following principles:

1. Commitment to and vigorous enforcement of international labor and human rights. . . .

2. Domestic economic growth and development, not austerity and export-led growth. . . .

3. Political and economic democracy. . . .

4. Reduction in the volume of destabilizing capital flows. Policies to regulate short-term borrowing and to dampen speculative flows of capital must be implemented.

5. Stabilization of exchange rates at levels closer to their pre-crisis values. the excessive devaluations caused by the loss of confidence in the East Asian currencies should be reversed. This is essential to blunt the negative impact of the crisis on American workers.

6. Transparency and broader participation in determining IMF policy. . . .

7. Ensure that speculators pay their fair share. The banks, corporations, and individuals who profited from risky investments during good times must not be shielded from losses during downturns. . . . Asian and American workers and taxpayers must not be asked to foot the bill for a party to which they were not even invited.

Even if we move toward reform of the international financial system, concrete steps must be taken to stop the destabilizing flood of cheapened imports which have already been unleashed by this crisis. Steel, autos, electronics, apparel, and other threatened industries face an immediate threat which requires specific actions to maintain import shares consistent with 1997 levels in order to protect the jobs of these workers.