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Status woe

Globalisation is leaving broken lives in its wake. For the sake of its citizens, the G20 needs to find a new, sustainable approach to economic cooperation

As this year's G20 Summit in Hamburg approaches, nerves are on edge, and for good reason. Brexit, the failed referendum to shape Italy's constitution, and the US, French and British elections all revealed public frustration with the political establishment. On both sides of the North Atlantic, the working and middle classes have seen their incomes stagnate and are anxious about the future. Through the ballot box, they're questioning the very international order the G20 embodies – one based on market principles and open economies.

In this new context, several years of repetitive leaders' communiqués pledging wholehearted commitment to structural reform and avoiding trade protectionism now seem like yesterday's politics. The tensions are already evident in ministerial meetings ahead of the G20 Summit, and were on display during the G7 Summit in May. Since US President Donald Trump vowed to unilaterally ditch the Paris climate accord, previously endorsed by the G20, conflict is likely to increase further.

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While Trump is the overt agent of disruption, the fundamental cause of the tension goes deeper. Globalisation and financialisation have always created winners and losers. But in recent years, we've seen a dramatic increase in those left behind by the system. Meanwhile, the top 10 percent, and particularly the top 1 percent, are capturing an ever larger share of wealth and income. Trends in inequality are not uniformly spread across the G20. As income distribution has worsened in the advanced G20 economies, some emerging economies, including China, India, Argentina, Turkey, Brazil and Mexico,

> have made progress in raising workers' wages and expanding the middle class in recent decades. But those countries still have very unequal income and wealth distributions. In nearly all G20 countries the share of national income going to working people—the labour share—has declined, and the gap between workers' productivity and wages has widened. People all over the world have good reason to believe the global economy is working to benefit the few, not the many.

The International Labour Organization (ILO) and others have documented these trends over the last five years, providing evidence and responsive policy options to the G20. Some G20 leaders have pushed for stronger action by the group to tackle these harsh realities, notably the previous leaders of Argentina and Brazil, occasionally joined by Turkey, China, South Africa, Russia, France and the US. But other G20 countries have ignored their calls and rejected decisive action to raise working people's incomes and reduce inequality, sticking to the orthodox line that unrestricted open markets, structural reforms (including deregulating labour markets) and fiscal consolidation (such as reduced spending on health care, housing and education) would eventually bring prosperity.

This year G20 host country Germany has proposed an agenda to address the "fears and challenges associated with globalisation", acknowledging the need for a multilateral response to the current backlash. To do this effectively, the G20 will need to move beyond the nice-sounding rhetoric and cosmetic changes that have characterised previous communiqués. But what would an affirmative G20 response look like? Here are three concrete suggestions:

Trade: a means to an end

When it comes to trade, the G20 has repeatedly vowed to "resist all forms of protectionism". At a meeting of finance ministers in March, however, the new US team refused to endorse this language. Following some difficult negotiations, and working on a compromise reportedly brokered by Canada, the final communiqué instead read: "We are working to strengthen the contribution of trade to our economies. We will strive to reduce excessive global imbalances, promote greater inclusiveness and fairness and reduce inequality in our pursuit of economic growth."

On the surface this sounds like a logical call to make trade serve economic and social goals. Yet many saw in the statement a troubling retreat from

an earlier stance that in effect made trade an end in itself. Of course, trade is not an end in itself. It is a means to greater economic efficiency, which in turn is a way to increase living standards. It took a political earthquake in the US to move finance ministers even to acknowledge the need for policies that responds to the current realities of most G20 countries. The leaders now need to articulate commitments to domestic policies that can translate this into real progress.

Workers' rights

On structural reforms, leaders need to move away from the current path of deregulating labour markets and the tepid approach to financial market regulation. Labour markets have not provided much protection to workers, as evidenced by their falling share of national income in most of the G20 and the capture of gains from productivity and technology by owners of capital. Instead, sensible regulations that restore workers' rights to organise and bargain, that guarantee adequate minimum wages and that reinforce social insurance systems are overdue and should be endorsed by the G20, to be adapted to each nation's specific situation. Reforms of financial markets following the 2007 crisis were insufficient. Leaders need to push for more of them, not roll them back.

The malaise of austerity

On fiscal and monetary policy, the G20 had some of its finest moments in 2008 when it pushed through multilateral agreements to stimulate large economies, helping to contain the financial crisis. But its decision in 2010-11 to reverse course and call for austerity rather than continued support for recovery was a historical, pro-cyclical mistake that contributed to the prolonged recession in the EU and weak economic, investment and employment growth elsewhere.

The G20 needs to lead a new approach to international economic cooperation, by pushing policies that can make real progress toward its stated goal of inclusive, sustainable growth. Public perceptions that economic policies are rigged to favour corporate and elite interests have now become electoral tinder. They can be addressed through a course correction towards progressive policies that favour the large majority, or continue to provide fodder for spurious, chauvinistic responses that make international cooperation a target rather than a way forward. If the G20 clings to the status quo, it is doomed to become mired in conflict—or worse—to irrelevance. This year's Summit faces stark choices.



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