OPINION

The Global Crisis and the Labor Market

The terrorist attacks on the United States shook the world. The military response by U.S. and allied forces signified the prelude to a long-lasting fight against terrorism. It is impossible to determine what long-term consequences these events will have in the economic, political, and social spheres, nor how they will affect the process of globalization. Any economic analysis is eclipsed by the concerns about the future of our open society. We cannot dismiss the dangerous possibility that the climate of openness in Germany and abroad could get much chillier. It would be fatal if history, rather than just holding its breath, reverted to obsolete mindsets of closed gates and blind xenophobia. That would mean that the opponents of an open society had achieved their goal.

Even before September 11, the U.S. economy was already been on the verge of recession. Considering that the economies in Europe and Japan are currently joining the sharp U.S. downturn – for the first time since the world economic crisis of the 1930s – the global economic situation is certainly fragile. Mass layoffs in some U.S. industries are already foreshadowing the possibility of a similar impact on the European labor markets.

Among the most vulnerable market segments are airlines, transport, leisure and tourism industries, as well as insurance and financial institutions. At the same time, the security and defense industries stand to gain from the new situation. While the traditional pillars of globalization – trade, capital flows, and migration – are feeling increasing pressure, the global information and communications systems are even more vulnerable as they provide relatively easy targets. A severe blow to these systems would jeopardize the continuation of the globalization process – and prosperity worldwide.

In an attempt to meet the new challenge, the United States is currently experimenting with a revitalization of Keynesianism in order to stabilize the crisis-shaken macroeconomic environment. The recent cuts in interest rates cannot hide the fact that it was monetary policy itself that helped cause the economic crisis, and that it is traditionally more difficult to fight recession than to keep the economy from overheating. Monetary policy has succeeded, nonetheless, at stabilizing the stock markets, thus providing a vital boost to U.S. consumer demand. Fiscal policy has contributed its share in the form of tax cuts and, more recently, substantial spending programs.

The resulting debate is justified, and it is important. A "tamed" version of Keynesianism is more relevant today than ever. In the absence of targeted short-term measures on the macroeconomic level, the labor market effects would be painful and persistent. We are well aware of the fact that an economic crisis tends to affect a disproportionately large number of low-skilled workers. Human capital in the form of qualifications is lost, and the layed-off workers become demotivated. The capital stock is adjusted to the lower demand and, at best, increased to render production less labor-intensive.

It is still too early, particularly for Germany, to discard the current strategy of debt reduction. The Maastricht Treaty has established a high degree of credibility while at the same time allowing for flexibility in times of a short-term economic crisis. We should therefore adhere to the planned expenditures and rely on the automatic stabilizers even if that means a short-term increase in the public debt. Should Germany, against all expectations, suffer from a recession on a more lasting basis, the government would have to take additional effective countermeasures, such as speeding up the tax reform process and strengthening local infrastructure investments. European monetary policy would have to contribute its share as well.

The major threat posed by international terrorism lies in the possible stalling of the globalization process. This may include a decline in international cooperation, a permanent fall in global consumption and investment, and even a withdrawal into the old "Fortress Europe" with its tough stance on immigration. Although the necessary security policy measures must be taken, it will prove equally important to maintain an open policy towards economic immigrants. The draft of the proposed German Immigration Act, the first law to regulate an economic channel of immigration, ought to be completed and introduced into the German parliament before the upcoming federal elections. This would send a positive signal to the rest of Europe, which could be more important now than ever.

All parties involved will have to show courage and determination to protect this openness, from which all of us can profit, even in the face of the recent terrorist attacks and the international community's response. After all, economic development in all parts of the world will ultimately prove to be the best answer to global terrorism.

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