

BUILDING COHERENT GLOBAL ECONOMIC GOVERNANCE WHAT ROLE FOR THE OECD?

TUAC DISCUSSION PAPER

**For Consultations with the OECD Liaison Committee
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Part One – Governance of Globalisation and the OECD Vocation

1. Globalisation remains at the centre of public debate and concern in OECD countries and throughout the world. It reflects the growing interdependence of economies which goes far beyond the expansion of international trade to cover capital flows, technology and even culture. Yet it has also become intertwined with the policy agenda of deregulation and liberalisation in which governments have retreated from their legitimate and necessary roles to regulate markets at national and international level and to ensure that economic development does in fact lead to social progress.
2. For trade unions, the erosion of effective public regulation or “governance” of markets with resultant severe social costs is the most serious concern. The results have been the crises that have rocked the global economy over the last ten years:- irresponsible financial policies leading to the Asian crisis; the collapse of the new economy bubble; the Enron fiasco; and the financial collapse of Argentina. In each of these crises it has been ordinary working families that have suffered from events for which they had no responsibility. Meanwhile global inequality, both between and within countries has grown spectacularly, and the international community is further away from attaining the millennium development goals than it was when it adopted them two years ago.
3. A strong global trade union movement is needed to counteract some of the centrifugal forces created by the interaction of globalisation and deregulation. Yet, the ability of trade unions to improve the lives of our members and working families is itself greatly influenced by this process. The attitude of many employers towards their employees, including union recognition, policy covering labour costs, technological change and work organisation, are increasingly dictated by international competitiveness and international “fashions”. The threat of de-location to an offshore site is a common feature of negotiations and in some cases it has become the reality. In different parts of the world governments have sought to suppress trade union rights for political reasons or misguidedly to gain economic advantage.

4. TUAC and our Global Union partners¹ are advocating a different form of globalisation: one that tempers the excesses of market-driven economic integration with strong institutions including unions, economic governance, a well-performing public sector, effective rules and a social dimension. We have consistently argued that the OECD has to play an effective role in reshaping global economic governance to work to this end. It was for this reason that we welcomed the 1996 OECD Secretary-General's paper on "The OECD: Challenges and Strategic Objectives". This paper defined the OECD's mission as achieving a balance between economic development, social progress and political stability against the background of the growing pressures of globalisation.

5. The strategy of sustainable development allows these issues to be discussed coherently. Yet the limited achievements of the World Summit on Sustainable Development (WSSD) in Johannesburg reflect the fact that such an OECD mission, if effectively carried out, is now needed more than ever. Sustainable development cannot be achieved by a simplistic approach of encouraging the unfettered functioning of free markets. Whilst the outcomes from Johannesburg were limited, many of the right questions were at least posed:- the linkage of poverty reduction to sustainability, the link with human rights, trade and investment issues, the relative responsibilities of corporations and governments, employment and living standards, transition and adjustment policies, and the coherence of policy and institutions at the international level. The three "pillars" – economic, environmental and social – of sustainable development provide a framework for responding to the policy challenges of globalisation. Yet, failure to make progress on implementing the Rio environmental objectives at Johannesburg reflects to a significant measure the failure to build an effective social pillar.

6. In the light of the above:

- *Would the Committee agree that the erosion of effective public regulation or "governance" with a resultant high social cost is the most serious threat from globalisation?*
- *Does this also reflect the shortcomings of international economic governance, or the "governance-gap"?*
- *What are the implications of this for the public sector?*
- *Do governments agree that the inadequacy of the "social pillar" of sustainable development is one of the central reasons for lack of progress towards the broader objective of sustainable development?*
- *Does this require the OECD to reinforce its vocation as an "instrument for global economic and social progress"?*

¹ Global Unions is a common identity of the International Confederation of Free Trade Unions, the Global Union Federations and TUAC. Our partners also include the World Confederation of Labour and the European Trade Union Confederation.

Part Two - the OECD's Key Activities – an Assessment

7. At the 1995 Liaison Committee TUAC drew attention to some of the relative advantages of the OECD as compared to other international organisations:

- It is composed of a group of countries which are the leading economies and which have more similarities than dissimilarities in their political, economic and social structures. Yet it is assuming a global reach and can act as a catalyst for more effective governance of the global economic system.
- It represents almost the whole range of government departments and policy fields, allowing the interconnections and inconsistency of policy to be resolved and a multidisciplinary approach adopted.
- Although an intergovernmental body the OECD through TUAC and BIAC has the opportunity to involve the social partners and not just governments in its work, which can be an important “reality check” on the applicability of policy conclusions.

These features could place the OECD at the centre of a debate on the need for sensible rules and regulations that can help re-link economic development and social progress. Yet the OECD's image is often one of an organisation promoting a deregulation of markets taking little account of social cost.

8. TUAC Working Groups or TUAC ad-hoc groups of affiliates and Global Union Federations have contact with some two thirds of the 33 OECD Committees and one third of the 53 Working Parties identified in the OECD's strategic management framework. The forms of contact vary greatly. There are informal contacts with Committee Chairs, consultations and in some cases full participation in meetings. We have surveyed the views of TUAC Working Groups regularly taking part in consultations to give below our assessment of the OECD's key activities and how far they contribute to what in TUAC's view should be the OECD mission. The assessment is set out using the taxonomy of the “clusters” of Committees around five OECD's strategic objectives.

Cluster 1 Promote sustainable economic growth, financial stability and structural adjustment

9. The OECD's forecasting and macroeconomic policy analysis work is regarded as important. It is needed to improve policy co-ordination between three major “blocks” of North America, Europe and Japan. One potential advantage of the OECD compared to the IMF is that the Organisation could develop a dialogue with a wider consistency as is done in the European Union social dialogue macro group to achieve greater consensus on both assessments and policy prescriptions. To this end consultations with the EPC and TUAC and BIAC could be widened beyond the EPC Chair.

10. On structural adjustment TUAC remains critical of the Economic Development Review Committee (EDRC) process and other work which leads to a template of proposals being presented in Country Reviews that reflect a simplistic notion of freeing up markets rather than assessing how institutions function and how the correct trade offs between social and economic objectives can be made. This is often the case in labour market recommendations which are increasingly regarded by TUAC affiliates as ideological and unlikely to facilitate constructive debate between social partners on how to achieve desirable changes. The EDRC

peer-review process is closed, lacking in transparency and unlikely to lead to some shared ownership with TUAC affiliates in the countries concerned. In general the greater openness of peer-review processes in specialist OECD committees leads to more balanced reports and recommendations. More diversity of economic views is needed within the OECD Economic Department. Divergent analyses and policy prescriptions need to be debated more openly, if eventual prescriptions are to win general support.

11. In the area of sectoral work the OECD can provide an opportunity for governments and unions and business to meet and discuss where often fora don't exist. This can be a way of reducing conflict as has been shown in events over the last year with the Steel and Maritime Transport Committees providing an opportunity for dialogue on major policy challenges. TUAC's partner Global Union Federations are ready to play a more active role in this process as has been shown by the evolving interaction with the Maritime Transport Committee.

Cluster 2 Promote employment opportunities for all, improve human capital and social cohesion and promote a sustainable environment

12. TUAC has traditionally valued the work of the Employment, Labour and Social Affairs Committee (ELSAC) and in particular the objectivity of the Employment Outlook which has assembled much useful information and on occasion challenged the conventional wisdom of the Organisation. It is important that this role continues particularly to follow up the labour and work organisation conclusions of the growth study. We would give particular importance to the analysis of social capital which could potentially be a path breaking area of analysis.

13. TUAC is engaged with both the Education and ELSA Committees alongside BIAC with the objective of "making lifelong learning a reality for all" and are currently deepening our analysis of models of what actually works in practice in terms of delivery. It is important that the profile of both social and education work is raised within the Organisation.

14. The ability to use OECD's cross-disciplinary capacity remains under-utilised in responding to the need for a social dimension of globalisation. When work has been undertaken on trade and labour standards in 1996 and updated in 2000 this has been useful to the wider discussion, yet neither the ELSA nor Trade Committees have shown willingness to take this work forward as a priority. The establishment of the ILO World Commission on the Social Dimension of Globalisation provides a potential focus for complementary work between the OECD and ILO. TUAC proposals for more detailed work on the social dimension of globalisation are set out in paragraph 16 below.

15. The failure to develop adequately the social pillar of sustainable development in the 2001 Report to the Ministerial Council was a missed opportunity. The grouping of sustainable environment and social and employment objectives within a single cluster of activities gives an opportunity to rectify this by integrating and balancing the work on the three pillars. TUAC and our Global Union partners themselves are currently focusing on several follow-up issues following on from the WSSD:-

- The Summit broadened the opportunity for workplace partnerships, laying the groundwork for further commitment among governments, unions, and firms in which the social dimension of development may progress;

- We will be using the WSSD implementation document comments on employment and income security to promote our plans for “just transition” in sectors and companies;
- We will be extending our advocacy role to campaign for the fulfilment of commitments on development assistance and poverty reduction;
- We will be seeking to conclude more agreements that touch on Sustainable Development at the international level between companies and Global Union Federations, and UNEP Sector Reviews should include them in their action points;
- TUAC will particularly continue to press for governments to live up to their commitments in implementing the OECD Guidelines for Multinational Enterprises.

Cluster 3 Contribute to shaping globalisation for the benefit of all through the expansion of trade and investment.

16. The importance of a horizontal approach to the social dimension of trade and investment was indicated in paragraph 14. The OECD Trade Committee’s work programme should be developed in co-operation with other OECD Committees to include more specific activities designed to promote policy coherence. It should address the questions left unresolved in the OECD’s two studies on trade and labour standards such as:- the links between the continuing spread of Export Processing Zones and labour standards; the effects on labour standards of China’s export drive further to its membership of the WTO; the relation between investment and negative policy competition, as when governments deliberately suppress labour standards in order to attract foreign investment. Work is also required on governments’ right to regulate in the public interest, and on WTO dispute settlement procedures. There should also be close co-operation with ELSAC’s work on child labour, adjustment policies and migration policies.

17. The emergence of OECD work to establish rules for global markets in some areas has been a significant development in the late 1990’s. Examples are the work to combat corruption, tax havens, and the Review of the Guidelines for Multinational Enterprises. These are all areas where TUAC is strongly supporting continuing OECD work.

18. Trade unions are keen to ensure that the OECD Anti-Bribery Convention is applied in practice. We have created an international trade union network to fight corruption. This network is working on a set of initiatives, including the protection of “whistleblowers” who expose corporate and public sector corruption. The OECD Convention should be revised to incorporate a clause to protect “whistleblowers” and to cover private sector bribery including overseas subsidiaries and supply chains. There should be increased inter-judicial co-operation by governments on a common regulatory framework to fight bribery, tax evasion and corruption.

19. The revised OECD Guidelines for Multinational Enterprises have potential to establish applied international standards for corporate social accountability. However, more than two years after their revision it is clear that, despite their potential, the Guidelines have not yet succeeded in becoming a high profile instrument. Governments must strengthen their efforts to promote and implement the Guidelines. Following the 2000 Review, more than 20 cases on corporate conduct have been raised with National Contact Points (NCPs) by trade unions. Only a handful of these cases have been resolved or led to conclusions by NCPs. The reason

is that too many NCPs are not taking their responsibilities seriously. They are not effectively following the Procedural Guidance outlined by governments and referred to in the OECD Council Decision in June 2000. In order to deal with cases in a timely and efficient manner, governments must ensure that their NCPs are functioning properly and that they are adequately equipped and resourced. Similarly, the OECD Secretariat working on Guidelines issues remain woefully under-resourced.

Cluster 4 Enhance public and private governance

20. TUAC and our Global Union partners have engaged actively in much of the OECD's work on governance. The substance of the work of Regulatory Management Reform Working Party itself, especially the social partnership approach to the Regulatory Reform peer reviews represent good practice for the development of peer-review process in the OECD more generally. The incorporation of key elements of the Territorial Development Service work into Public Management Committee (PUMA) work should be used to develop an integrated governmental approach (vertical and horizontal) to public sector governance. The opportunity to make an input to the Steering Group on Corporate Governance, including the trade union involvement within the Roundtables is valued. Similarly, and while it is too early to pre-judge the outcome of the expected Corporate Governance Principles for Corporate Governance of State-Owned Assets, the process is one that TUAC is actively engaged in. Serious consideration should also be given to transforming elements of the current voluntary Principles of Corporate Governance into a more binding instrument in the run-up to the 2004 review.

21. Yet, there are opportunities for horizontal work between this and other areas where synergies are possible. The corporate governance work: not least that related to State-Owned Assets would gain from a PUMA input. At the same time, the Anti-Corruption work should be better integrated with both the public and private sector governance activities. One area that requires a more systematic TUAC and social input is the international trade-related aspects of competition policy. The labour market impacts of this have to-date been inadequately addressed.

Cluster 5 Contribute to the development of non-member economies

22. Given the dramatic situation of world poverty and the importance of making progress towards the millennium development goals TUAC and our Global Union partners have given special priority over the past two years to increasing our input to DAC work and in particular to development and implementation of the DAC Guidelines on Poverty Reduction. A meeting was held under the Labour/Management Programme funded mainly by trade unions in September 2002 to achieve greater dissemination of the DAC Guidelines amongst Global Unions. It is essential that the DAC develops as an effective pressure point to make sure governments honour their commitments given at the Monterrey Conference to increase development assistance. It is also essential that it opens itself more to dialogue with trade unions on the application of the poverty reduction Guidelines particularly on the rights based approach to development. Two promising areas for more intensive work are the DAC Working Party on Gender Equality and that on Aid Evaluation.

23. The development of outreach activities remain a potentially important aspect of OECD work in developing international consensus on the governance framework for globalisation. TUAC with our Global Union partners have engaged in a range of activities and provided an

interface with trade union movements. However a greater social element to the outreach work is required. TUAC has proposed OECD outreach activity on the OECD Guidelines to match that that TUAC is itself undertaking. We would also propose a trade union outreach project on the New Partnership for African Development (NEPAD), possibly within the framework of the Labour/Management Programme.

24. The above gives an inevitably simplified view of TUAC membership's assessment of the priorities of the OECD. Nevertheless:

- *Does the Committee share or disagree with the assessment of OECD work reflected in the above comments from TUAC Working Groups?*
- *Do perceptions of the value of OECD work differ within governments between different Ministers?*
- *Are the priorities accurately reflected in budgetary allocations?*
- *How do National Delegations try to reconcile these differing views to bring a coherent position to OECD?*
- *Do the ECSS and Council provide adequate forums for discussing such a strategic view?*

Part Three – Implications for the OECD Reform Process

25. Some of the issues that arise from the above assessment are:-

- The capacity of the OECD for horizontal work remains ineffectively utilised;
- The “clustering” of Committees and Departments according to strategic objectives could potentially help increase synergy. However, there remains a key issue of the treatment of cross-cutting issues between clusters;
- This is particularly true with regard to the treatment of social questions including the social pillar of Sustainable Development, where the profile of the Organisation needs to be raised;
- The duplication of work between the OECD and other international organisations is frequently exaggerated. Rather the issue is how to develop stronger partnerships with “social” organisations such as the International Labour Organisation;
- An ability to respond to sudden events in terms of budgetary priorities is required;
- The Organisation needs to give a higher profile and relatively more resources to promoting instruments that have been developed to regulate the negative impacts of markets and corporate behaviour such as the Guidelines for Multinational Enterprises, the Anti-Bribery Convention, the tax haven work and work on corporate governance;

- Peer-review processes should engage the social partners as has been done in the Regulatory Reform area;
- In the past, TUAC has proposed the regrouping of economic structural coordination work in a separate service drawing more on the cross disciplinary expertise of specialist departments. This has been strongly opposed by some parts of the Organisation but the issue still remains;
- The dialogue with TUAC and our partners in Global Unions is a potential asset that is not fully exploited;
- The OECD work with NGO's still is best developed on a sectoral case by case basis;
- The Outreach Programme requires a more developed social dimension;
- The efficiency and value of the work of the Organisation depends on certain common features of OECD countries as agreed at the OECD Ministerial Council in 1990 – “pluralistic democracy, respect for human rights, and a competitive market economy ...” – these still have to be de facto conditions for membership and a feature that should figure prominently in the Outreach Programme;
- The Reform Process has now been discussed for seven years within the OECD. It is important that it leads to fruition and does not simply become a front for further budget cuts in which the comparative advantages of the Organisation become dissipated.

26. *Would the Committee agree with the above assessments?*