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OECD organisation for economic cooperation and development
■ CSC commission syndicale consultative auprès de
OCDE l'organisation de coopération et de développement économiques

CREATING GOOD JOBS AND PROSPERITY
- THE ROLE OF THE OECD

TUAC STATEMENT
TO THE OECD MINISTERIAL COUNCIL
May 2006

I. INTRODUCTION

1. In OECD countries 36 million workers are registered as unemployed even after four years of "recovery" following the slowdown in 2001. Growth remains imbalanced and fragile, and even in those regions where employment growth has picked up it is significantly lower than in previous recoveries. Worldwide, according to ILO estimates, more than a billion men and women are unemployed or underemployed, while nearly 1.4 billion – almost half of the world's total workforce – struggle to survive below the US $2 a day poverty line.

2. In many OECD countries real incomes are dangerously depressed and wage growth has been delinked from productivity growth. The share of income has shifted from wages to profits, yet increased profitability has not been matched by higher productive investment but is driving speculative mergers and acquisitions. Inequality of incomes is increasing. Globalisation is only one factor amongst many putting downward pressure on wages and conditions for many workers in OECD countries. However the threat by employers to relocate activities to other countries and the willingness to exploit migrant workers on sub-minimal wages is depressing real wage growth and destroying confidence in the long-term relationship between companies and their employees. It risks producing a backlash against more open economies. Insecurity of workers is compounded by the attempts by some governments to weaken labour market protection. The OECD's calls for labour market flexibility over the past decade have in the public mind become synonymous with precarious and insecure jobs with little future.

3. This situation is not sustainable. The OECD Ministerial must give an impetus to rebalance growth among OECD regions at high levels of employment and income. The imbalance between profits and wages and between high and low incomes must be corrected. The opportunity provided by the reassessment of the OECD Jobs Strategy must be seized on to build consensus on implementing structural policies that are both equitable and efficient as well as macroeconomic policies to ensure that supply side improvements likely to raise capacity growth are taken up and supported by increased demand. Governments must put in place the governance framework and policies for globalisation that create the decent jobs that the world needs. In the WTO negotiations, industrialised countries should give the stalled Doha Development Agenda a genuine development focus. OECD governments must now deliver on their commitments to raise development assistance, and provide debt relief.

4. Trade unions are therefore calling on OECD Ministers to:-

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- Work with central banks and with social partners to raise domestic demand growth particularly in Europe and Japan so as to rebalance OECD growth at high levels of employment and to reduce the risk of a dangerous overcorrection of imbalances between OECD regions (§6-12);

- Refocus the OECD Jobs Strategy so as to expand the growth potential and the quality of employment through structural initiatives based on human capital investment, skills adaptation, and income security in a changing job market (§12-21);

- Take urgent action to meet the commitments made in 2005 to accelerate action to meet the Millennium Development Goals, by delivering on promises given to developing countries regarding debt relief and development assistance (§22);

- Ministers must develop a raft of government policy responses to the employment impact of globalisation that reinforces core worker rights, reaffirms and strengthens the OECD Guidelines on multinationals, guarantees transparent corporate governance and develops best practice adjustment assistance (§23-34).

5. Governments must draw rational conclusions from the successes and failures of different approaches to structural reform as well as the public concern over globalisation. They must engage in effective negotiation and consultation with trade unions – which represent the pre-eminent stakeholder of civil society – working people and their families. That requires that all OECD countries respect commitments to observe internationally recognised workers rights to freedom of association and collective bargaining.

II. REBALANCING THE GLOBAL ECONOMY

Coordinated expansionary policies needed

6. Despite weakening growth at the end of the year the world economy experienced faster economic growth in 2005 than in previous years. The world has experienced a third “oil shock” during the past two years, in which global oil and gas prices have doubled. However, inflation has remained subdued and there is no risk of inflationary spiral as higher energy prices have not been passed on in higher wages. There are significant imbalances in growth and prospects remain fragile. The world’s major economic regions remain imbalanced both internally and externally, and the risk remains that macroeconomic and currency misalignments may destabilise the global economy.

7. Growth in Japan has now moved to “post-recessionary levels” – the challenge is to make this broader based more equitably shared and sustainable through rising incomes and domestic demand. While US growth is currently relatively strong, job creation is far weaker than in previous recoveries, median wages are stagnant, inequality is at unacceptable levels and fiscal and trade imbalances continue to worsen. The US has become the buoy keeping the world economy afloat but at the price of zero or negative savings, increasingly reliant on the continuation of rising house prices, that undermines the sustainability of growth of living standards. Growth in Europe is disturbingly low and fell to 1.3% in the Euro zone in 2005. The unwise tightening of interest rates by the European Central Bank both ignores the recommendations of the OECD and flies in the face of what should be the euro-zone’s priority

of raising growth and employment given the fact that inflation remains subdued despite higher oil prices, while core inflation is low and declining.

8. In this environment in the OECD there is a need to rebalance world growth by raising demand in Europe and Japan, rather than slowing it in North America. OECD Finance Ministers and Central Banks must implement a coordinated package of measures to balance global demand and stimulate job growth. This must be backed up by structural initiatives based on human capital investment, skills adaptation, and income security to confront the changing job market.

9. The Euro zone must become an engine of growth, and cannot rely on an export-led recovery. The European Council must launch a European Growth Initiative to support domestic demand inside the EU. The ECB must be kept from hiking interest rates to fight an inflationary danger that does not exist. Governments should beware of giving monetary authorities with the wrong signals by raising indirect taxes or administered prices which could lead to the madness of a cycle of interest rate tightening. The scope for flexible implementation of the Stability Pact must be taken as an opportunity to pursue a coordinated growth-orientated fiscal policy, particularly in the low-growth, low-inflation core economies of the Euro area. Further public investment is needed in areas such as training and upgrading of skills, research and development, the environment (i.e. the Lisbon priorities) as well as social initiatives. Euro area countries in which the gaps between actual and potential output have been closed should then embark on fiscal consolidation. It is also essential that real wages in the Euro zone countries rise and the gap with productivity growth be closed.

10. The improvement in the Japanese economy and the diminishing risk of deflation are welcome but the announcement by the Bank of Japan to end quantitative easing of monetary policy must not lead to early tightening of interest rates that could choke off the potential recovery. Although real wages grew in 2005 for the first time after declines in recent years the increase was still substantially below the growth in productivity. For Japan’s recovery to be made sustainable, policy must now make room for rising earnings and domestic consumption. The economy is in a process of polarisation with the increase in insecure employment and joblessness among young people. Regional disparities remain and inequality of income and ownership of assets is increasing.

11. Faster growth in the rest of the world will help adjustment in the US economy, which appears quite strong, but is unbalanced, internally and externally, and disturbingly fragile. The U.S. economy is growing at a rapid rate, but employment growth is lagging behind. The recovery, now in its fifth year, is the weakest recovery in employment since the Great Depression. Profits have recovered, but investment has not. Productivity has risen at twice the rate of wages since 2000. Median wages have been falling reflecting higher inequality. The federal budget deficit is over four percent of GDP and the external account is running a deficit of seven percent of GDP. United States’ monetary policy must remain supportive of growth while fiscal policy must focus on reducing the deficit without stalling recovery and protecting incomes of middle- and low-income families. The growing U.S. trade deficit is unsustainable and must be reduced without transmitting a shock to the global economy. This is only possible if other countries take up the slack and pursue expansionary policies. International cooperation to stimulate growth, particularly in Europe and Japan is necessary to avoid a massive speculative slide in the value of the U.S. currency.

III. BOOSTING EMPLOYMENT, JOB QUALITY AND INCOMES

Unemployment across the OECD and deteriorating quality of jobs

12. At a first glance it appears that the trend increase in unemployment has been brought to a halt. Across the OECD, unemployment has decreased slightly from 6.7 % in the first quarter of 2005 to 6.3 % in January 2006. However, few countries, notably Spain, the US, Denmark, Canada, and New Zealand, have managed to reduce unemployment substantially over the period 2003 to 2005. In a larger number of countries unemployment has remained constant or started to increase, namely the UK, Switzerland, Portugal, the Netherlands, Korea, Luxemburg, Hungary, Greece, Belgium and Austria. At the same time, youth unemployment has continued to increase in almost all OECD countries (the exceptions being Australia, Denmark and Italy). In 2004, in 13 OECD countries, youth unemployment rates exceeded more than 15 % in 13 OECD countries.

13. Despite a recent reacceleration of economic activity, there are no signs that the recovery sufficiently translates into more jobs. Heavy job losses during the recent recession appear to be followed by a "jobless recovery". According to a new international survey, only employers in Canada, Spain, Norway, Sweden, Ireland and Japan, reported optimism in hiring plans.[1] So, unsurprisingly it is of concern that unemployment in the OECD is projected to remain at 6.3 % in 2006 and to fall only slightly in 2007.

14. High unemployment across the OECD remains daunting, as does the successful integration of young people into decent employment. Further cause for concern is the fact that wages are lagging behind productivity increases. There has also been rising inequality in wages and earnings since the late 1980s. The number of working poor across the OECD has increased. In seven out of the 18 countries for which are data available, the proportion of working poor has gone up. The increase in numbers of working poor has been particularly high in the US, Ireland and the Netherlands – all countries with positive performance in terms of absolute employment. Employment growth is simply not a sufficient guarantee for social success. A fall in unemployment rates does not necessarily translate into better jobs. There is also evidence that the quality of jobs has deteriorated over the past decade. This is reflected in long working hours of low-wage earners (who work more hours than other employees) and an increasing number of workers involved in job-juggling which leads to their becoming multiple job holders. In order to make ends meet, they hold apart from a primary full-time job often a second, sometimes even a third part-time job. This is particularly the case in the US but it is by no means an exclusively American problem.

15. Multiple job holding is part of a trend towards casual employment and non-standard work. It is linked to the growth of involuntary part-time employment. Across the OECD about one out of six workers in part-time employment considers the employment as involuntary. Likewise, a large volume of temporary employment must be treated as involuntary. Most temporary workers indicate that they would prefer permanent jobs because temporary jobs tend to provide conditions less favourable than permanent ones, in particular with regard to wages and to non-wage benefits. The prospects for transition from temporary to permanent employment are limited. Workers in temporary employment are often trapped in temporary employment/non-employment cycles; the number of those workers, depending on the country, varies over a range of 5 % to over 10 percent of total employment.

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[1] Manpower Global Employment Outlook Survey Q2/2006, Milwaukee

The political economy of employment and structural policy

16. Discussions of 'structural reforms' and the difficulties in implementing them are characterised by oversimplification. Structural reforms are conceived solely as a deregulation agenda that seeks to bring social and economic institutions more closely into line with an 'economics textbook view' of what an economy – and society – should look like. So, it is argued that, given obvious benefits of free markets, failure to 'reform' must be due to opposition from sectional interests (rent-seekers) and a self-interested political system.

17. A more desirable and workable "reform agenda" must be rooted in a less ideological and much more realistic assessment of the role of institutions in a market economy and the ability of markets to produce 'optimal' results. While it is possible to make a specific case for deregulation in specific contexts, the claim that a general case exists for removing social regulations and institutions must be rejected. Rather it is essential to include under the 'reform' concept 'positive' interventions by public authorities and the social partners in areas such as training, gender equality and a whole range of other areas. Moreover, there is no evidence that 'change' is best brought about by an executive which imposes its will on a disorganised society. On the contrary, successful social and economic systems have tended systematically to draw on the expertise and the mobilising power of representative social movements and organisations, not least among them trade unions. Change has to be negotiated.

The challenge of a revised OECD Jobs Strategy

18. The revised OECD Jobs Strategy must provide a road map for social justice and fair working conditions to cause productive and positive change to emerge against the background of the expansion of the global labour force and the internationalisation of the economies of OECD countries. It must be a tool to meet the 2004 OECD labour Ministers' objective of "more and better jobs". The issue at stake is not whether workers should adapt or not adapt to globalisation, technological developments and ageing societies. The question is how to adapt in the right way and upward mobility of living standards. Undermining collective institutions and wage–setting, cutting wages, forcing longer working hours and the creation of precarious and unprotected work is not the answer to the doubling of the global workforce and will only serve to intensify the problems by undermining social cohesion in OECD countries. The required response must be to move up the technology ladder through innovation and investment in education and skills and to ensure that as many workers as possible are able to take part in this process of economic and technological upgrading.

19. Ensuring social justice, in addition to being a goal in its own right, makes change acceptable, by ensuring that the benefits of globalisation are not restricted to a select group of winners and by preventing an evolution in which groups of workers (lower skilled workers, older workers) are left out of potential benefits of growth. Social justice requires institutional arrangements that ensure fairness in the labour market. Decent working conditions are essential to maintain and improve human resources. More people will be drawn into productive jobs when a decent floor is established in the labour market.

20. Key elements of a positive employment agenda include:

- A regulation on working hours that prevents workers' burn-out and destruction of human capital. Working time patterns adapted to the needs of workers and their families are essential to prevent labour and skills from going to waste. This is especially true from a gender perspective. A culture of long working hours is detrimental for the work-life balance of families. It either forces many women out of the labour market or obliges them to take part-time jobs that do not reflect their skill levels. Employers often only offer part-time jobs as they believe this promotes the flexibility of their organisation, thereby locking workers into part-time inactivity. Workers require the right to limit their weekly working hours as well as the right to work full-time.

- Gender equality. Gender inequality and problems faced by women on labour markets (doubling of work-loads at home and at work, pay inequalities, incomplete social security coverage, imbalanced access to high-quality jobs and career prospects) depress female participation in labour markets. In addition to providing quality and affordable child care facilities, addressing gender inequality in all its forms is necessary to avoid waste of human capital and increased employment rates in OECD countries.

- Worker-friendly flexibility and an adaptable workplace. If employment rates of specific groups (women, young and older workers) that are now underemployed are to be increased, then measures need to be taken to make workplaces, working time schedules and job content more worker-friendly and adapted to different categories of workers (young parents, older workers, disabled workers).

- Job protection and prior notification of lay-offs combined with the right of laid-off workers to be reinserted in the labour market. Prior notification of economic lay-offs prevents workers from falling immediately into the trap of unemployment and gives them time to prepare so that they can make a better start in finding a new productive job. In addition, notification-time also provides the opportunity for public employment services and social partner retraining funds to support affected workers immediately, instead of trying to rehabilitate them after several months of unemployment. So, prior notification combined with immediate active support create a potential for upgrading workers and moving them into new and decent jobs.

- Decent unemployment benefits combined with active labour market policies. Decent unemployment benefits also serve to underwrite investments in human capital. They provide unemployed with the financial means to re-enter the labour market, to engage in retraining and to prolong their job search in order to find jobs that match their skills, instead of being forced to take up jobs that are far below their potential and which function as a 'bad jobs trap'.

- Controlling forms of excessive flexibility and insecure work. Jobs that are excessively flexible create a bad jobs trap in which workers remain stuck. These 'bad job traps' need to be rectified by providing these workers with equivalent rights and access to social protection and with decent wages and broad access to high-quality training schemes.

21. Work to establish such a positive change in agenda would replace widespread fear with growing worker confidence in the future, a condition vital to the health of so many OECD countries.

IV. ACHIEVING A JUST GLOBALISATION

Accelerating domestic growth and poverty reduction in developing countries

22. A number of developing countries benefited from faster global demand growth and rising commodity prices in 2004 and 2005. However, attainment of the Millennium Development Goals is far off track and as a group, OECD governments have failed to deliver on their aid and debt-relief commitments made in 2005. Unemployment or unprotected employment continues to plague much of the developing world, along with growing informal employment in countries suffering from low growth, generating more in-work poverty. Sub-Saharan Africa has been regressing economically rather than developing. Economic growth as such does not automatically lead to poverty reduction; it has to be accompanied by policies directly targeted at lifting people out of poverty, enabling them to benefit from and participate in the process of economic growth. Governments must therefore focus more on growth that is beneficial to the poor, by fostering the conditions necessary for decent job creation including the extension of basic rights and protections to all their workers and citizens. The challenge is to deliver on commitments for increased financial assistance for development and new sources of development funding as well as a new development contract establishing good governance in developing countries, on the basis of respect for democratic and human rights, and fair trading arrangements.

Making growth in China sustainable

23. China's ongoing high rates of growth and the associated increase in foreign direct investment have turned out to be the new economic phenomenon of the 21st century. Yet the Chinese growth model is threatened by serious imbalances – between regions, as a result of growing inequality, due to capital inefficiency and insolvency of the banking system, as well as resource depletion and environmental pillaging. A generation of young migrant workers within China are in effect an exploited underclass. At the same time the Chinese model of export-led growth has increased competitive pressures on some markets in the OECD countries. It is undermining labour standards in many other developing countries while raising demand for commodities. The export orientation of growth is based upon the suppression of workers' core rights, all in order to obtain labour-cost advantage coupled with an administered foreign exchange rate and a foreign investment regime "à la carte".

24. The priority for China must be to shift from being an outlier in terms of respect for internationally recognised standards and to shift to more balanced and qualitative growth that is sustainable both socially and environmentally. With the growth of the private sector, state authorities need to strengthen their capacity to introduce and enforce decent labour market regulation to protect workers against the excesses of the market system and to manage change in a socially sustainable way. This cannot be done from the "top down" – it needs vibrant civil society, fundamental civil and political liberties plus strong and effective unions operating on ILO standards of freedom of association and the right to strike.

The need for a genuine development round

25. A fair rule-based trading system can make a major contribution to global development. However, not all countries and regions automatically gain from trade and investment liberalisation. The OECD noted at the 2005 Ministerial Council that "... in the short run, job

turnover associated with offshoring is not costless and may disproportionately affect certain regions, sectors and firms". The WTO Director General has reiterated this and called for humanising globalisation as part of a "Geneva consensus" to replace the "Washington consensus". The ILO's World Commission on the Social Dimension of Globalisation made strong pleas for much more attention to be paid to the social dimension of globalisation. It called for respect for workers' rights by all international institutions including the IMF, World Bank and the WTO.

26. The WTO negotiating process is stalled; if it is to succeed the Doha Round must be transformed into a genuine development round providing trade justice to developing countries. It has to be demonstrated both that structural change need not be a zero-sum game and also that it is possible to manage change in firms, industries, regions and labour markets in socially equitable ways. OECD countries have to restructure on the basis of a set of high labour standards and not on the basis of a low-wage development model, and they must ensure that productivity growth is used to raise living standards, reduce poverty and contribute to sustainable development.

27. Many developing countries concerns at NAMA reflect the need for them to run industrial strategies as did OECD countries during their periods of industrialisation. Furthermore, the concessions that are being demanded from developing countries would lead to substantial tariff cuts and have serious effects on employment, partly due to the impact of being in open competition with China. This shows the need for an effective floor to support a basic level of labour and living standards. As a minimum, the WTO should work together with the ILO, OECD, World Bank, IMF and relevant UN agencies, to anticipate the social impact and adjustment costs of trade liberalisation and should then link this to aid for trade-funding based on additional not diverted resources. The disarray following the termination of the world's textile quotas shows that trade negotiations must be accompanied by ongoing assessments of their employment impact and appropriate adjustment measures, with international funding where necessary. The final WTO Ministerial Statement to be adopted at the end of the Doha Round should mandate the WTO to establish a work programme on Trade and Employment to be overseen by a WTO committee or working group.

Improving the governance and rules of the global economy – the role of the OECD

28. More effective international rules to shape globalisation and its social input are needed. Governments must guarantee workers' core rights on a global basis and encourage agreements between trade unions and business. A specific focus is needed to stop the proliferation of labour rights abuses in export-processing zones and ensuring respect for workers rights in China, given its role as a magnet for foreign investment. The proposed OECD project on OECD and Chinese government approaches to corporate responsibility must build on the OECD Guidelines for Multinational Enterprises and the ILO core labour standards and needs to be rapidly advanced. In the longer run, the OECD's past work on the relationship between trade and core labour standards should be built on through the development of links between the OECD, ILO and WTO with a view to providing comprehensive analysis of the interrelationship of trade, employment and labour standards.

29. TUAC and our global union partners have worked with the OECD on its initiative *Investment for Development,* agreed by OECD Ministers in 2003. We have recognised that if well-founded, this initiative can contribute to achieving the Millennium Development Goals. One component of this initiative is the development of the Policy Framework for Investment

(PFI). Its aim is to assist governments in attracting investment with the purpose of increasing development. It is in this capacity, that of promoting development, that the PFI could serve as a useful instrument providing a given government with a set of questions to evaluate and improve its investment climate. It remains a non-binding framework.

30. The follow-up work needs to adapt the PFI to a development context – balancing the need for attracting investment with the need for a policy mix that encourages economic growth for the poor, job creation and poverty reduction. Governments should examine how the PFI can be used by donors in development programmes to promote development. Moreover, to avoid any misconceptions and ensure that the PFI is not imposed on developing countries, it must be clearly recognized that the PFI is not legally binding.

31. One part of the PFI discusses policies to promote responsible business conduct. TUAC believes that the *OECD Guidelines for Multinational Enterprises* must figure prominently in the follow-up to the PFI. This provides an important opportunity to inform non-adhering countries of the legitimate expectations on investors expressed in the Guidelines and to show developing countries that OECD members are serious in making their companies comply with international norms and standards world wide. It is welcome that the Safeguards Policy of the International Finance Corporation (IFC), the World Bank's private sector-lending arm, now stipulates that all borrowers from the IFC must respect core labour standards. Synergy should be developed between the IFC policy and the OECD Guidelines.

32. Increased commitment must be backed up by effective and soundly functioning National Contact Points (NCPs). TUAC remains concerned about the large number of NCPs that appear unwilling to deal with corporate misconduct. In order to be credible OECD governments must set an example. If the PFI is to become a useful tool to promote development, OECD governments must follow their own policy recommendations. A significant improvement needs to take place in government implementation of the Guidelines. TUAC has called for a system of peer-group monitoring of National Contact Points responsible for the Guidelines to be introduced at the OECD to strengthen their effectiveness in dealing with cases. Governments have however failed to act on this.

33. We strongly support the aims of the *OECD Anti-bribery Convention* and recognise the crucial role played by peer-review monitoring in ensuring its effective implementation. We call on OECD Governments to ensure that sufficient resources are put in place to provide for continued credible, sustainable and cost-effective monitoring, beyond the current round of monitoring which ends in 2007, including in-country reviews involving consultation with trade unions, business and civil society. We welcome the coming into force of the United Nations Convention against Corruption (UNCAC) and call for early ratification and implementation by all OECD governments. We underline the importance of implementing measures to protect employees and other persons who report information on corruption offences in accordance with the Convention.

34. *Export Credit Agencies* (ECAs) also have a central role to play in efforts to stamp out international bribery and to promote accountable corporate behaviour, as supporters of OECD companies operating overseas. We urge all OECD ECAs to report suspicions of bribery to the national law enforcement authorities and to require clients to provide details of agents, as well as the amounts, purposes and place of payment of commissions on all transactions. We welcome the regular publication of information on the measures undertaken by OECD ECAs to combat bribery in export credits, but consider that the utility of this exercise could be

significantly enhanced through the introduction of a peer review process, aimed at identifying best practice and promoting members' adoption of equivalent measures.

35. The TUAC welcomes the OECD report on *Creating Value from Intellectual Assets* and its policy findings for the knowledge-based and innovation-driven economy. It is essential that human capital is considered as a central issue at corporate governance and reporting levels within firms. The report recognises the central role that collective bargaining should play in "investing in human capital development", and the value of giving employees a greater voice in firms' decision-making via "high performance work systems". The report also calls for government initiatives in developing non-financial corporate reporting standards and mechanisms. This positive approach to social partner involvement stands in stark contrast to the absence of dialogue and openness by the OECD Steering Group on Corporate Governance. TUAC's exclusion from any consultations with that body for the second year in a row raises concerns about the ability of the Organisation to remain as the authoritative governmental forum on corporate governance and its ownership by all relevant constituencies, including labour and bodies responsible for investing workers' capital.

V. CONCLUSION

36. The OECD was founded by governments to promote growth and development through global cooperation. It has an important role in helping build a consensus around a balanced set of policies to guide the globalisation process. It is essential to have a pragmatic and evidence-based approach to trade and investment agreements and to employment policies and not to impose free market orthodoxies on labour as though it were just another input.