

**TRADE UNION STATEMENT
TO THE OECD MINISTERIAL COUNCIL
AND SEA ISLAND G8 ECONOMIC SUMMIT
May-June 2004**

I INTRODUCTION AND SUMMARY

1. G8 and OECD leaders must use the Sea Island Summit and OECD Ministerial Council meeting to rebuild a form of multilateral co-operation that can gain global public support. This is needed for two reasons. First it is to counter new threats to physical security and achieve fair political settlements under reinforced United Nations authority to the growing numbers of violent conflicts. But it is also necessary to respond to growing economic and social insecurity caused by persistent poverty and growing inequality in developing countries, which create breeding grounds for conflict.

2. Governments must draw the correct conclusions from public concern over the negative aspects of globalisation. The report of the ILO's World Commission on the Social Dimension of Globalisation has pointed to the failure to manage globalisation so that it serves human needs. The report rightly claims, "Public debate on globalisation is at an impasse. Opinion is frozen in the ideological certainties of entrenched positions and fragmented in a variety of special interests. The will for consensus is weak. Key international negotiations are deadlocked and international developments go largely unfulfilled." That applies in particular to the mishandling of the integration of China and other developing countries into the global trade and investment system, alongside what is seen as the loss of good jobs in the industrialised countries.

3. Governments must take the lead in breaking out of this impasse. They must give the required political leadership to achieve four central priorities:-

- The restoration of faster and more balanced economic growth that creates more and better jobs, "sustainable job-rich growth";
- The development and enforcement of fair rules on international trade and investment that are in conformity with human rights standards, including core labour rights and agreements on environmental sustainability;
- Getting back on track to attain the Millennium Development Goals and reduce the income gaps between developing and transition countries and the industrialised world;
- The implementation and enforcement of high standards of corporate governance and accountability that promote workers' participation in corporate decision-making procedures.

4. Pro-active government policies coordinated at the international level are needed to attain these objectives. To be effective they need to occur within a reformed inter-governmental framework of coherent rules and linked institutions geared to achieving

balanced and strong demand growth, and to ensuring that the potential benefits of trade and investment are harnessed and distributed to achieve sustainable development. For their part trade unions are rising to the challenge of globalisation in a wide range of areas including that of negotiating agreements with companies in order to manage change and globalisation.

5. As immediate points for action, the trade unions in G8 and OECD countries, together with the global trade union movement call on governments to:-

- Work with central banks and the social partners to stimulate demand growth particularly in Europe and Japan so as to rebalance growth worldwide and stimulate job creation (§ 6-9);
- Expand growth potential and the quality of employment through structural initiatives based on human capital investment, skills adaptation, income security in a changing job market (§ 10-13);
- Respond to challenges on ageing and health by reinforcing public systems of health care and retirement security, and work with the social partners to increase the employment possibilities of older workers, women and the integration of migrant workers (§ 14-16);
- Restore confidence in corporate governance by effective enforcement of rules on transparency, board accountability, shareholder responsibility and employee rights (§ 17-18);
- Launch a new initiative for innovation and research and development to support company “high road” competitive strategies (§ 19-21);
- Follow up the proposals of the G8 Labour Ministers and the ILO World Commission Report to establish Policy Coherence Initiatives and a Globalisation Policy Forum, and give practical meaning to the concept of the socially responsible economy through the re-enforcement of rules on human rights, including core labour rights, and implementation of the OECD Guidelines for Multinational Enterprises (§ 22-27);
- Take urgent action to meet the Millennium Development Goals, by delivering the promises given to developing countries on debt relief, and development assistance, and by launching a world workplace initiative to monitor agreed sustainable development targets (§ 28-32).

II JOBS AND DEMAND WORLDWIDE

Increasing Growth and Expanding Employment: Resolving the growth and jobs paradox

6. Although short-term economic prospects appear to be brightening in some countries, the world’s three major economic regions are becoming dangerously imbalanced, with macroeconomic and currency misalignments threatening further global destabilisation. Inflation remains low, but deflationary fears persist in the Euro zone, requiring strengthened expansionary measures. Unemployment remains unacceptably high across the OECD with stagnant or falling wages and rising poverty levels in some countries. The ILO has stated that

global unemployment has reached over 185 million, the highest level ever recorded, with 550 million people working in extreme poverty on US\$ 1 or less a day, a number unchanged since 2002.

7. The policy priority of raising job growth must be achieved through higher and more balanced economic growth across the three major regions, with a focus on increased domestic demand. This requires first and foremost that the Euro zone finally becomes an accelerated engine of growth, through a significant easing of monetary policy, alongside, in the short term, flexible implementation of the existing Stability Pact, allowing coordinated growth orientated fiscal policy. The nascent recovery of the Japanese economy is welcome and all policy measures must be taken to sustain it at a higher rate. The United States' recovery remains fragile and monetary policy must remain expansive, while fiscal policy must be reoriented both to raise the incomes of middle and low-income families as well as the unemployed, and to begin to restore the depleted infrastructure. That will pave the way for much needed job growth and allow internal and external imbalances to be reduced without transmitting a shock to the global economy.

8. Higher sustainable growth built upon domestic demand is needed in most developing countries. Yet, unemployment, or unprotected employment continues to plague much of the developing world, along with growing informal employment in those countries suffering from low growth, driving further in-work poverty. The legacy of market-driven adjustment packages, often externally imposed with an over emphasis on export-led growth has had a deflationary effect, weakened overall investment, led to depleted infrastructure and hollowed out the public sector to the point that it simply fails in many countries. The excessive focus on export-led growth in some countries is creating huge problems of internal migration. Financial market liberalisation and de-regulation have meanwhile led to an explosion in the level of financial reserves, diverting scarce resources away from productive investment. The main beneficiaries from this have been wealthy elites whilst the working poor and the unemployed have paid the price.

9. In the OECD area an opportunity exists for an activist macroeconomic policy to promote growth and employment, against the low-inflation backdrop, but ad-hoc unilateral action is insufficient in today's interlinked globalizing economy. To maximise this growth potential and to avoid negative spill over effects, G7 and wider OECD Finance Ministers and Central Banks need to implement a coordinated package of measures to boost the global economy and jobs growth:-

- The European Union must put the Lisbon Strategy back on track, with its three per cent growth target and social policy orientation. In addition to flexibly interpreting the Stability and Growth Pact in the short term so as to support growth, policy makers must revise the Pact so as to encourage public investment and allow fiscal initiatives to boost domestic demand in times of economic downturn, while undertaking fiscal consolidation in upturns. The European Central Bank (ECB) with its obligation to foster growth and employment, against a backdrop of dis-inflation and an over-valued Euro must support the Lisbon goals of high economic growth and social cohesion. The economic and social situation demands a cut in interest rates, while policy makers need to set exchange-rate guidelines for the ECB, in cooperation with other Central bankers to help address imbalances in the world economy, and thereby enhance growth. A scenario of sustained above-trend non-inflationary growth would boost investment and

productivity and give the social partners' confidence to negotiate employment-creating pacts based on innovation and up-skilling.

- The United States' monetary response to the economic slowdown has helped to kick-start growth, but the recovery remains fragile and jobless, largely due to a badly targeted fiscal policy. The fiscal give-away to the rich through tax cuts for wealthy individuals and large corporations has failed the US economy and working families. It must be re-orientated to those most in need – the working poor and unemployed, and job-creating small and medium-sized firms, underpinned by much needed public investment to improve infrastructure and create jobs. A sustainable recovery requires rising wages and employment growth, implying a fairer sharing of the current productivity gains. Such a policy mix will boost non-inflationary growth with jobs whilst increasing tax revenue to reduce the federal budget deficit.
- The Japanese economy at last seems to be turning the corner. However, the recovery is fragile, and over-dependent on the export sector. Meanwhile, consumer confidence is remains low in the face of continued deflationary expectations. The Central Bank must maintain its policy of pumping liquidity into the economy through the banking system, though policy should also focus on bolstering domestic demand through consumption, alongside effective investment to create a better balanced recovery. Simultaneously a signal should be sent that interest rates will be maintained at their current levels for the foreseeable future. Measures must be taken to increase consumer confidence and spending, so as to stimulate domestic demand and reduce unemployment including a signal by the government that real wage increases are to be encouraged.

III STRUCTURAL REFORM AND LABOUR MARKETS

The Need for a “High Road” Approach to Job-Creation

10. The OECD's Growth Study and the recent growth and employment performance of a number of European countries, in particular those in the Nordic area that have chosen a “high road” to reform, shows that labour market success and high employment rates can be achieved through appropriate and interlinked policies in the fields of social dialogue, macroeconomic policy and labour market policy. One-sided measures that merely reduce welfare provisions and “punish” the unemployed are unjust and ineffective. These examples together with experience gained in implementing the European Union's Employment Strategy must be taken as a starting point for a reassessment of *the OECD Jobs Strategy*.

11. Investment in education is of crucial importance in the “knowledge society”. Public investment in general education must be a priority for OECD governments, and be sufficient to ensure quality and equity of access. The target for investment in education for each OECD country should be 6% of GDP. Globalisation is also leading to increased movement of peoples across borders, increasingly into OECD countries and special attention must be given to the education and recognition of the existing qualifications of refugee and migrant families, in order to avoid “ghettoization” with dangerous consequences for social cohesion and security. Pre-school education programmes are important in creating opportunities and overcoming disadvantages due to ethnic, cultural or socio-economic differences.

12. The OECD and G8 Governments must deliver on past commitments to invest in lifelong learning by:-

- Implementing active labour market policies in order to allow socially acceptable restructuring and company-based schemes for paid educational leave;
- Providing adequate financing for education and lifelong learning, ensuring that employers also invest in skills and that all individuals have the motivation to undergo lifelong learning, overcoming the well-known tendency for the market to under-provide training;
- Encouraging and facilitating agreements between employers and trade unions to make participation in lifelong learning feasible;
- Pursuing policies to strengthen equal opportunities and close gender gaps and other forms of discrimination in education, training and employment;
- Pursuing policies to promote both high performance work systems and the effective use of the skill potential of the workforce, especially workers' insights and experience.

13. Trade unions are prepared to step up their action as negotiators of training and manage change in order to support the "high-road" approach; but they must however be given the role of key actors in this process.

Retirement Security and Improving the Labour Market Prospects of Older Workers

14. The expected impact of ageing societies on the financial sustainability of current (mostly public) pension schemes is driving the debate on pension reform policy. However, demographic changes are not the only problem pension systems have to face. Insecurity has mounted as many workers have lost defined benefit pensions and found that financial market swings have wiped out the income from their defined contribution systems or personal savings. Changes in labour markets have brought about more insecure and unstable work. These changes not only reduce contributions to pension systems, they also generate pension entitlements inferior to those of workers in standard employment. Thus the numbers of workers who are not satisfactorily covered by existing pension schemes are increasing. The challenge is to reform and to modernize pension systems in a way that allows them to respond to future risks and demands.

15. Privatisation measures, most often unjust and therefore unpopular, are not the way towards financial sustainability of pension schemes. The replacement of public pension schemes by private schemes or capitalised schemes cannot be a blueprint for pension reform. They do not resolve the fundamental demographic challenge of an increasing dependency ratio. Actuarial pressures will simply be transferred from the state to financial markets with associated risks (as seen for instance in the Asian financial crisis and in the United States). Some OECD countries have already taken steps to stabilize the costs of public pension schemes. These include efforts to broaden the basis of pension contributions and the shift to multi-tiered systems. They are also trying to reverse the trend towards less time in work and more time in retirement. Countries that have reduced public costs in many cases have continuing problems of inequality and old age poverty. The debates as well as the reform policies indicate that there is no single best solution; nevertheless it is clear that strong public systems are more effective in providing

wide coverage and portability of pensions; they have much lower administrative costs and are also seen to be more equitable.

16. In achieving retirement security for workers the focus of the policy debate must move away from the divisive issues of statutory retirement age and seek to ensure improved employment opportunities and participation of older workers above 50. In order to reverse the trend towards enforced early retirement or terminal unemployment, it is of utmost importance to remove the pressures coming from high unemployment and low demand for labour, from age discrimination in employment as well as from short-sighted approaches to corporate restructuring. Numerous examples show that employers and unions can design innovative solutions, provided there is an expanding demand for labour. Joint initiatives by governments, employers and trade unions have to change current employment practices and adapt work systems, workplaces and career paths to ageing. Such initiatives must focus on:-

- Improved access to training;
- Ways to improve the quality of work and working conditions by raising standards of health and safety at work;
- Promoting prevention of illness;
- Combining corporate restructuring with retention of older workers; and on
- Improving flexible paths to retirement.

IV CORPORATE ACCOUNTABILITY

Corporate Governance

17. Public distrust of the corporation is now widespread in OECD countries and beyond. At the start of the new millennium unrealistic profit expectations and the accompanying equity market bubble came to an abrupt halt amid a series of corporate and financial scandals. These crises have continued and spread from the spectacular corporate failures of Enron and Parmalat to a wide array of companies across the international scene. Powerful corporate insiders have been manipulating widespread conflicts of interest to enrich themselves; not by creating wealth, but by redistributing income to themselves at the expense of employees, shareholders, taxpayers and the public. These cases have revealed lax corporate regulation, cosy corporate boards and passive shareholders. Meanwhile employees have lost their jobs, retirees have lost their retirement security, and the productive resources of corporations have been diverted and destroyed. A wedge has been driven between the private interests of insider business elites and the wider public purpose of the corporation.

18. National level responses have gone some way to help restore the public's confidence in corporations, but still fall short of what is needed. Self regulation, without a robust and enforced regulatory regime is inadequate. Stakeholders, including employees as well as responsible investors and shareholders must be empowered to hold CEO's and boards to account for their actions, while ensuring responsibility to external constituents. At the international level OECD Ministers are to endorse the newly revised OECD Principles of Corporate Governance, which are the only international standard to guide national level

debates around corporate governance reform. This recognises stakeholder rights whether by law or mutual agreement. Governments must now give the OECD a clear mandate and resources to develop a multi-stakeholder dialogue, alongside a monitoring process of member government's corporate governance reforms, so to inform a forward looking work programme to further develop and strengthen the Principles in all areas.

Innovation Policy

19. In improving international competitiveness and promoting economic growth, innovation policy must cover all the aspects of sustainable development. These include social inclusion and equity and resolving problems related to pollution, energy and poverty. Innovation policy must encourage a dialogue on policy design, bringing together governments, business, trade unions and public research institutions. Such a dialogue must be part of a much wider economic and social debate on the priority given to science, technology and innovation as engines for sustainable growth, development and welfare. In order to spur organisational innovation, to boost productivity and to improve the quality of working life, governments must design and implement targeted policies, aimed to:-

- Promote new forms of working and work organization, such as teamwork in high performance work systems;
- Contribute to the development and acquisition of management and co-operation skills;
- Develop human resources, with the aim of improving skills and contributing to innovation.

Research and Development

20. The combined effects of lower growth in many OECD countries since 2000 and the continued restrictions in public expenditure have meant that resources currently devoted to R&D, declining in a number of countries while almost stagnating at the OECD level, represent a threat to sustaining knowledge-based growth strategies. Insufficient resources endanger advances in producing knowledge required to promote sustainable development; it also puts the proper functioning of national innovation systems at risk. Insufficient public expenditure on R&D undermines education and training opportunities, it threatens an infrastructure conducive to science and research, and it limits basic research. Investment in the research workforce is particularly needed.

21. The OECD should analyse whether an R&D tax credit could help generate appropriate funding for raising R&D investment to at least 3% of GDP by 2010, as announced at the European Council Meeting in Barcelona in 2002. This should also provide a benchmark for the OECD area as a whole.

V NEW RULES FOR GLOBALISATION

22. The collapse of the 5th WTO Ministerial Conference in Cancun demonstrated the inability of the current multilateral system to cope adequately with the multiple social and economic challenges of globalisation. If negotiations are to restart, WTO members must recognize that trade is only one of the elements in the three pillars of sustainable development

endorsed at the World Summit on Sustainable Development in 2002, and give full attention to the social dimension of development including the respect of fundamental workers' rights. Greater democracy and transparency within the WTO will be required along with progress on other key goals set by the Doha Development Agenda including eliminating all agricultural export subsidies.

23. The G8 Labour Ministers meeting in Stuttgart in December 2003 called for work to establish an inter-institutional forum in the multilateral system to ensure the respect for workers rights. It also proposed action to develop international industrial relations. The ILO's World Commission on the Social Dimension of Globalisation also made strong pleas for there to be far more attention paid to the social dimension of globalisation. Both have called for coherence to be established in the multilateral system in the respect for workers rights by all international institutions including the IMF, World Bank and the WTO. The OECD Ministerial and the G8 summit should endorse these conclusions and the governments should agree action in particular to:-

- Examine their own procedures to ensure that there is coherence of action with respect to universal values and human rights to better implement them in practice;
- Launch Policy Coherence Initiatives in which they work together on the design of more balanced and complementary policies for achieving a fair and inclusive globalization;
- Launch a Globalization Policy Forum by relevant international organizations. The Forum will be a platform for regular dialogue between different points of view on the social impact of developments and policies in the global economy;
- Deal with international economic and labour policies in a more integrated and consistent way;
- Establish structures for consultation with the social partners in the International Financial Institutions and the WTO.

24. The *laissez-faire* approach of some governments to the offshore outsourcing of jobs from developed to developing countries threatens to undermine support for the multilateral trade and investment system. The adequate response should encompass OECD governments creating a permanent space for dialogue and negotiations between trade unions and businesses, supported by targeted regional and industrial policies along with active labour market policies to help those communities whose jobs may be affected. Trade unions and forward-looking employers are negotiating these issues both at the national and international level through the sectoral Global Union Federations. The focus is on early negotiations to maintain sustainable employment, avoid compulsory lay-offs, and to promote internal firm-level redeployment and up-skilling, whilst at the same time ensuring that workers rights are respected and developed everywhere and that companies recognise and negotiate with trade unions. Governments have a role to support the outcome of negotiations. More could be done by the OECD Development Assistance Committee and its members to encourage international trade union cooperation and capacity building in the developing countries. The OECD Trade Committee horizontal project on Trade and Structural Adjustment also has a key role to identify the gaps and reform requirements within the architecture of the global trade and investment system, and to promote socially inclusive flanking policies at the national

level, with an active role for the social partners. The OECD and the ILO need to step up cooperation on these issues and transform the project into a continuing one beyond its cut-off date in 2005.

Negotiating Globalisation - the Role of the OECD Guidelines for MNEs

25. If properly enforced, the OECD Guidelines for Multinational Enterprises are of key importance in developing a strategy to manage globalization since they regulate corporate conduct worldwide. As they apply to non-adhering countries, they can make a difference for workers in non-adhering countries where labour rights are often violated. But workers can only take advantage of the Guidelines if they are widely disseminated. TUAC therefore calls on governments to increase efforts to raise awareness of the Guidelines particularly in developing countries. The OECD must also assist countries that wish to adopt the Guidelines, thereby increasing their global reach.

26. Trade unions regard the Guidelines as a tool for social dialogue, which can assist the negotiation of framework agreements between Global Union Federations and multinational corporations. The Guidelines can contribute to conflict-solving not only through the efforts of National Contact Points (NCPs), but also because the social partners make active use of the Guidelines procedures. But for this to happen, they have to be backed up by capable and forceful NCPs. Several NCPs are still remiss in their handling of cases. TUAC calls on the governments of Japan, Korea and the United States in particular to review and invigorate their NCPs.

27. The Guidelines have a role to play in trade and other international agreements. They should set the floor for investors as well act as a benchmark of behaviour required to lead to the receipt of public subsidies. Only companies that respect the Guidelines should be eligible for export credits and other subsidies. They should also be used as minimum requirements in contracts between international organizations such as the World Bank and multinational enterprises.

Sustainable Development

28. Despite a plethora of Summits, inter-governmental agreements and pledges, the UN's millennium goals of poverty reduction remain a mirage, while environmental destruction and global warming move the planet inexorably toward an unsustainable future. Successive G8 initiatives and commitments have not been lived up to. The multilateral institutions with the responsibility to integrate the three pillars of sustainable development – economic, social and environmental - lack the needed horizontal and integrated policies and work programmes to effectively deliver on the ground.

29. Globalisation is deepening the inter-linkages between previously independent decision-making processes related to social, environmental and economic issues. Decision-makers are increasingly aware of the costs of failing to integrate policies, especially at the national and local levels. Programmes that capture synergies between the three pillars of sustainable development will win public support for change. The OECD should maintain and develop its interdisciplinary capacity for work on Sustainable Development.

30. Additional resources must be allocated towards debt relief for low-income indebted countries. The level of debt relief provided by the HIPC programme must be increased, the

number of eligible countries must expand, and structural adjustment conditionality that may hamper the achievement of MDGs must not be part of debt relief requirements. The IMF and World Bank should examine other policy options, such as the proposed International Financial Facility, in order to channel more financial resources towards developing countries, and to support the New Partnership for African Development (NEPAD). They should ensure that their loan conditions do not prevent the implementation of poverty-reduction measures as defined in poverty reduction strategy papers.

31. The UN target for allocating 0.7% of GNP as official development assistance must be treated as an achievable target by all countries. Such aid should serve the interests of recipient countries and not continue to be characterised by privatisation-orientated “tied-aid” policies. Nor should the current link between aid and security issues boost military expenditure at the expense of humanitarian assistance and poverty reduction. Moreover targets adopted by governments and stakeholders at the United Nations Millennium Assembly of 2000 and the Earth Summit in Johannesburg in 2002 must become the beacons for change, especially with respect to public health, education and the alleviation of poverty, as well as social and environmental imperatives. Dedicated efforts must translate targets into concrete and measurable regional, local and workplace programmes for change. However, programmes are doomed to failure unless their workers and the wider public participate actively in their design and implementation.

32. Sustainable development should be an inherent feature of decision-making and reform. In practical terms governments must:-

- Promote research and development cooperation to improve understanding of employment implications of change, and its role in poverty eradication. Make employment policy an instrument of Millennium Development Goals fostering worker involvement in production and consumption change;
- Promote workplace partnerships which encourage employers and trade unions to set joint targets for education, water, health, hygiene and habitation and to engage in joint monitoring measures. Engage in workplace actions to promote worker and public health and put workplaces at the centre of Government and Corporate accountability measures;
- Address the distributive social effects of market-based instruments for implementing environment and economic targets. Ensure that trade and investment decisions support the integration of social policy in environment and economic planning;
- Align their programmes of work with the yearly thematic cycles of the UN Commission on Sustainable Development (CSD) and to join international efforts to address water and sanitation issues for 2004-2005;
- Implement previous G8 decisions to support “Education for all” targets set by the UN institutions and the World Bank to be achieved by 2015.