Labour and the Shifting Power Equation:
Statement of Labour Leaders to the
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Shaping the Global Agenda: The Shifting Power Equation

1. Shaping the global agenda is the aim of all work of the international trade union movement. From organising and capacity building to lobbying and campaigning, the objective is to ensure a better tomorrow than today for the workers, the unemployed and the poor of this world. In order to achieve this – hence, so as to better shape the global agenda – the international trade union movement has undergone historic and substantive changes within the last year. Towards the end of 2006, the most united and representative trade union international in history was born. Bringing the world's free and democratic labour movements together for the first time, the newly created International Trade Union Confederation (ITUC) represented 168 million workers from 153 countries and territories. In the early days of 2007, the creation of the new international was complemented by the founding of the Council of Global Unions, bringing the ITUC together with ten Global Union Federations, representing trade unions by sector and the Trade Union Advisory Committee to the OECD (TUAC).

2. Power is shifting in all spheres of the global economy and workers are often the first to see the consequences. Workers are also those that are hid hardest by most of these tendencies. Developments related to globalisation have given capital an upper-hand vis-à-vis labour not seen since the industrial revolution. Together with the prevalence of neo-liberal dogmatism this has created a range of problems in the world of work which not only pose a risk to the livelihoods of working women and men but jeopardise the sustainability of both national economies and the global economy as a whole. The sustainability of our economies is also endangered by a shifting power equation within capital itself, with short-term, financial and speculative investments gaining prominence at the expense of long-term investments in production, human resources, research and innovation. Indeed, the acute appetite of this 'new capitalism' might devour the world's industrial fields at a speed that is unsustainable, leaving employers and workers with nothing for the future. Finally, sustainability is further threatened by developments in geo-politics, technology, and business – issues that this year's annual meeting also focuses on. Here too responsible solutions are a top priority.

Problems in the World of Work

3. In spite of strong global economic growth over the last 5-6 years, the new millennium has been marked by a deterioration of the quality of work. At the global level, nine interrelated problems have either emerged in the last half decade or become considerably more severe and pronounced. They are:

   - rising unemployment and jobless growth;
   - continuous high levels of under-employment and under-paid employment;

- stagnating wages and workers' diminishing share in productivity gains and economic activity;
- declining social protection, particularly where this is employer provided;
- increasing pressure on established practices of collective bargaining;
- growing casualisation of work, in the form of more temporary, agency and part time work, with a particularly serious impact on women and other vulnerable groups;
- mounting instances of disguised and ambiguous employment relationships;
- continuous surge in work in the so called informal economy;
- the spread of export processing zones and the labour relations these are infamous for.

Though they often stand out us separate and distinct phenomena, these trends are all part of a common development in which the relative position of workers is weakening, work in general is undergoing a transformation, and where employment relationships are changing.

4. The deterioration of work is not isolated to particular parts of the world or to only specific types of work or sectors in which it is performed. It is a truly global phenomenon, visible everywhere. Hence in different ways, most employment in most locations around the globe is either becoming more insecure, more precarious, of lower quality or relatively more poorly remunerated. This has consequences for everyone, and particularly hits women, young people and vulnerable groups. It first of all means that more people will continue to be caught in poverty and that more countries will continue to struggle with development deficiencies. But it also means that inequality within and between countries will keep on growing and that the fundamental pillars of most economies will be undermined, leading to eroding social and political stability around the world.

5. The above problems in the world of work pose a risk to both equity and sustainability of the global economy. It will manifest itself as weakened effective demand and lower growth rates in the global economy. And originating in increased dissatisfaction with the state of affairs and the politics that are responsible for this, it will result in opposition to the most visible features of the global economy such as international trade and finance.

6. These problems in the world or work do not represent a temporary phenomenon that will soon vanish; they risk becoming a permanent feature of our global future. They are the consequences of how our economies are run and organised as well as of the policies pursued at the national and, not least, the international level. Yet at the same time, these problems can be countered. They show that a fundamentally different approach to globalisation is needed; one that prioritises employment, both quantitatively and qualitatively. This means an approach which puts decent work for all at the heart of policies from the economic and financial sphere to the social. And it means recognising that ensuring this objective is a joint responsibility of governments and international institutions as well as employers and employees. The World Economic Forum could make a first step by putting these problems and the search for their solutions on its own agenda and its efforts to shape the global agenda.

'Financialisation' and 'Short-termism' - the rule of the New Capitalism

7. The shifting power equation is everyday more evident in economics. Real capital is losing out to speculative, financial capital – and the consequences may be dire. The returns expected from investments are increasingly determined by this speculative financial capital, and investments in production, innovation, sales, distribution, and the people behind all these functions are thus subordinated to the demands of global financial markets and investors. The planning horizon is becoming shorter and shorter, and shareholder value and returns on owners' investments are prioritised above anything else, even real economic performance.

8. This change in the way investments are made, in how companies operate and in what kind of strategic planning is dominant in large parts of business is intimately linked to the continuous growth of private equity and hedge funds – as also alluded to by the annual meeting's sub-theme 'Economics: New Drivers'. Private equity funds are estimated to having spent some 600 billion US$ in 2006 on acquisitions of businesses, almost doubling their activities in 2005, and hedge funds to manage funds equal to the GDP of Brazil, the eighth largest economy in the world. There are several problems in relation to these types of funds and the general tendencies they are a manifestation of. They are all related to the transformations of the companies they buy up or out, and concern their economic sustainability, their roles as employer relationships and their societal value, as well as their transparency and accountability.

9. When private equity funds take over corporations and enterprises they treat them as bundles of assets that should be arranged or rearranged according to the short term rates of returns that can be achieved on them. Though the assets concerned are most often manufacturing and service operations, contributing to the real economy and employing hundreds of thousands of workers, they are treated as molecules and atoms, constantly reorganised and reconfigured to create the optimal investment outcome. And as a novel and socially detrimental aspect of this, the drive for profit now includes the elimination of productive capacity and employment. Indeed, many buyouts are made when stock prices for one reason or another drop below the value of a given company's assets, and with the main intention of selling off such assets before passing the remains of the company on to other owners. 'Buy it, strip it, flip it' is the popular name of such strategies, and as they often destroy otherwise productive and competitive companies, it is no wonder that the funds behind them have been compared to locusts.

10. The short-term thinking evident in such investments and the general financialisation of management practices is obviously a threat to sustainable enterprise development in the form of research, development and innovation. But short-termism and the consequent drive for higher returns also leads to downward pressure on wages and working conditions. So even where jobs are not immediately shredded away, they may well become of lower quality. Furthermore, as private equity funds and the likes are less concerned about long term issues and more inclined to challenge existing norms, procedures and structures, including those related to workers and unions, they are also more difficult to deal with for their employees. There is not much scope for partnership. In fact, a central question is, 'partnership with whom?'

11. Takeovers by private equity funds have also been shown to have negative consequences on national taxation systems. This is because most takeovers by such funds are highly leveraged, i.e. financed by taking up loans in the company itself, and the debt of the companies that have been taken over thus generally rises

massively after the takeover. And as interest rates are tax deductible, the companies' direct payments of income taxes are reduced significantly. Authorities have therefore found evidence that private equity funds are also a sign of more aggressive tax planning. The fact that a vast majority of funds are based in tax havens obviously adds another blow to already declining public income from corporate taxation. Yet the aspect of leverage and indebtedness not only has consequences for taxation; the boom in private equity buyouts was facilitated by historically low interest rates but with rising interest rates nowadays, it must be asked whether the many levered buyouts are sustainable and whether they can finance the growth foreseen? In this regard, the returns on investments that many private equity and hedge funds are seeking, generally around 15-20 percent a year, are simply unrealistic and cannot be achieved legally from the companies they are investing in.

12. Private equity is furthermore often seen to damage the transparency and accountability of the companies it is engaged in, since most buyouts by private equity funds have been complemented by very high bonuses to the top management of the acquired companies. Thereby the loyalty of management towards its present owners and its employees in the case of a possible takeover is influenced by the prospect of receiving such bonuses to their personal salaries.

13. With the increasing influence of private equity and hedge funds, management and executives of non-financial companies act more and more like financial market players, making long term success take a back seat to short term gains. This is not only a threat to the livelihoods of many working families but will be detrimental to the future sustainability of the global economy. It seems obvious that a change of mindset of such businesses is needed and also that new, innovative regulation is essential. Such regulation could include the following: measures to discourage quick-flips and general short-termism; greater transparency and public reporting requirements; more supervision and oversight by public authorities; limits to the share of a purchase price that is financed by levered credit; taxation of capital gains made on the sale of assets; and enforcement of the obligations of private equity funds, as the real employers, with respect to all relevant employer obligations.

Multilateralism, Sustainability and Accountability

14. It is evident that the world is in need of courageous, visionary and effective leadership. Our global challenges are becoming ever more urgent, yet our political leaders seem unable to react adequately. As a consequence we are far from achieving the millennium development goals, far from having adequate international trade rules, and far from seeing a UN that fits the new millennium and its most obvious challenges. The crisis in multilateralism must be resolved – which seems to be implicit in the annual meetings sub-theme 'Geopolitics: The Need for New Mandates'. The international community must not be paralysed by recent setbacks to multilateralism, but must tackle the world's most pressing challenges with fresh determination. The UN Economic and Social Council should be the central coordinating point for such coherence and cooperation, with the authority to guide both UN agencies and institutions such as the WTO, the IMF and the World Bank on the issue. This would take a reformed and strengthened UN – not least a stronger ECOSOC – with greater financial resources and an enhanced ability to

address questions of economic and social concern. ECOSOC should therefore be transformed into an Economic, Social and Environmental Security Council, which would have the highest international authority on economic and social issues.

15. The world is also in need of leadership in relation to energy need and climate change, two issues that cannot be viewed independently. In consequence, we must see long-term energy plans within a sustainable development framework that achieves energy security and environmental protection and that are compatible with full employment. Liberalisation and increased competition among energy suppliers is far from being a panacea. Indeed, as the market does not 'think strategically', it cannot solve the fundamental problems related to balancing energy production and protecting the environment. Policies must ensure secure, clean, environmentally friendly and affordable energy, based on the promotion of renewable energy. Policies must also be based on multilateral approaches and joint investments by key national and regional actors. And policies must, through enforceable agreements, ensure investment in new capacity and in infrastructure.

16. Progress made to tackle global warming and climate change has been worryingly insufficient. The need for action is now more urgent than most of us can imagine. A mixed approach is necessary, which begins with the recognition that developed and developing countries alike are 'economies in transition' in an environmental and energy-related sense. Furthermore, there need be no contradiction between a cleaner-technology approach and the targets and mechanisms set by Kyoto. Liberalised systems need to be re-tuned for quicker introduction of lower-carbon and zero-carbon technologies. The pricing policy in liberalised systems also needs to encourage energy conservation and efficiency, especially in fossil fuels and to encourage development of renewable energy and biofuels.

17. The leadership role of business is often promoted by the WEF as a way of solving many of the world's problems – as with the annual meeting's sub-theme 'Business: Leading in a Connected World' – but the level of unaccountability among large parts of business makes a mockery of this ambition. As long as corruption is an accepted practice of some businesses, as tax evasion and avoidance can be used as part of strategic planning to boost profits, and as the main actors of business - its executives - reward each other with excessive wages and bonuses while undercutting employee compensation, business is not showing much leadership in the world. Indeed, how can some parts of business think that they are an example to follow for governments and international institutions when they undermine democracy and human rights by, among other things, refusing to let its workers organise and bargain together, work to weaken labour laws and engage in union busting? Far too many business leaders and employers talk about their role as corporate citizens and their contribution to the world, but nevertheless limit their real solidarity to their own board rooms and allow their marketing departments to decide just how social they should be. The international trade union movement will continue to work with those companies and employers that are doing the right thing in relation to their society, the environment and their employees, yet while persistently exposing those that are not.