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**TRADE UNION STATEMENT TO THE 1999 COUNCIL MEETING AT
MINISTERIAL LEVEL**

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**TRADE UNION STATEMENT TO THE
1999 OECD COUNCIL MEETING AT MINISTERIAL LEVEL
AND TO THE COLOGNE G8 ECONOMIC SUMMIT¹
May 1999**

Globalisation: the Need for a New Policy Direction

1. Financial markets have made some recovery since the near meltdowns of 1998. However, the legacy of the financial crisis is slowed growth and recession. Thirty percent of the world economy is now in recession, and the World Bank is predicting that global growth in 1999 is to be the lowest since 1982. In Russia, the transition has further faltered and more than one third of the labour force remains unpaid. In Brazil, financial markets have been stabilised but only at the cost of a recession whose depth and duration remain uncertain. Japan is mired in recession while the European Union is experiencing slower growth and performing well below capacity. Only the United States has a buoyant economy.

2. Fundamental questions remain as to how long this fragile situation can continue. Having the U.S. economy act as the single locomotive for the world economy poses huge risks. If that locomotive were to stall, the global economy would quickly be plunged into deep depression. Governments must recognise these risks and act rapidly to stimulate balanced growth so as to diversify the sources of expansion operating within the world economy.

3. A fundamental cause of the financial and economic crisis that has unfolded over the last two years has been the blinkered pursuit of financial liberalisation without the development of adequate national and international frameworks of regulation. The resulting widespread capital flight has destabilised the world economy. The austerity policies forced on the countries affected have wreaked havoc domestically and cut world demand growth. At the same time, by persistently ignoring the social consequences of trade and capital liberalisation, policy-makers risk provoking a backlash against globalisation.

4. The response of the leading economies and international institutions must be to draw the correct lessons from the crisis and establish a new direction for public policy governing global markets. There is an urgent need to reinforce the transparency and democratic accountability of both governments and institutions. The OECD Ministerial Council and the Cologne G8 Summit are opportunities to give impetus to this new direction. In particular, governments must:

- take concerted measures to restore balanced demand growth in the world economy to ward off the risk of deflation (§5-11);
- write-off both multilateral and bilateral debts of the poorest developing countries on the condition of their respect for basic human rights (§8);
- build on the principles set out at the Washington G8 Labour Ministers' Conference to develop broad-based social safety nets on a global basis (§10);

¹ This statement has been prepared by the Trade Union Advisory Committee to the OECD (TUAC) in co-operation with our partner organisations, notably the International Confederation of Free Trade Unions (ICFTU), the World Confederation of Labour (WCL) and the European Trade Union Confederation (ETUC).

- establish an International Commission of enquiry on the system of regulation which is required to govern international financial markets (§12-16);
- move decisively in advance of the Seattle WTO Ministerial Council to ensure that the global trade and investment system and the International Financial Institutions reinforce the work of the ILO to guarantee core labour standards (§17-19);
- initiate at OECD and G8 levels an employment dialogue with the social partners to agree on a socially acceptable approach to labour market adaptability (§20-22);
- build a social and employment dimension to sustainable development (§23).

Expand Global Demand

5. In the wake of the Asian crisis the global economy faces a serious risk of deflation and a further surge in unemployment. The explosion in the US trade deficit introduces a new source of financial instability. Central Banks and Finance Ministers in the OECD countries must counteract this by concerted measures to support balanced demand growth and so relaunch growth and job creation.

6. Economic expansion in *Europe* is vital since Europe represents approximately thirty percent of world economic activity. In addition, the area's economic activity remains well below a level which can and must be sustained in order to reduce unemployment and meet Europe's responsibility in the world economy. The recent reduction in interest rates by the European Central Bank is welcome though real rates are still too high. Their belated reduction also reflects the deficiencies in the post-Economic and Monetary Union framework for economic decision-making. It is essential to ensure that demand growth matches supply potential, so that structural weaknesses can also be tackled. A European level budgetary policy capacity must be developed to complement the single monetary policy.

7. Radical action needs to be continued to stimulate domestic demand in *Japan*. Permanent tax cuts and secure pension arrangements are necessary for all working families, but notably for those on lower incomes so that they are given confidence to consume goods and services.

8. The G8 and OECD governments should now write off bilateral debts of the *poorest developing countries* and allow the international financial institutions to raise sufficient finance to do likewise. This would be an appropriate response to the public sentiment which has been manifested through the "Jubilee 2000" coalition. The write-off should be conditional on the respect of basic human rights including labour rights by the countries concerned.

9. *Crisis countries* in both Asia and Latin America must be given the means to expand domestic demand and help restore growth in the global economy. The stabilisation programmes agreed with the IMF must shift from austerity to support for growth. Back wages due to Russian workers must now be paid, allowing some relief from the vicious circle which has led to lost tax revenue and prolonged the financial crisis. Much of the burden has fallen on women, who in the absence of adequate social safety nets carry most of the burden of keeping families together and caring for the young and elderly on drastically reduced household incomes.

10. Growth-oriented policies in the crisis countries must be backed up by financial assistance for poverty alleviation and the development of broadly defined social security systems. The World Bank has now published its Social Code, which must be supported. The Washington G8 Labour Ministers' Conference of February 1999 laid out the elements of such an approach: international support for

developing, transition and emerging economies must be targeted on the countries worst affected by the crisis and the most vulnerable people in those countries. The priorities are:

- protecting education and health budgets, ensuring that the poorest are able to keep their children at school and have access to essential healthcare;
- creating and expanding social safety nets to ensure that the under-employed and jobless have a satisfactory income on which to live, and extending ILO-backed programmes to eradicate child labour;
- boosting employment intensive public works schemes and extending training and job search programmes;
- restraining prices of essential goods and maintaining the purchasing power of minimum wages;
- developing sound industrial relations systems, through the promotion of tripartite dialogue between governments, employers and unions, based on respect for the ILO's core labour standards.

11. Governments face the challenge of maintaining a sound tax base for public finances against a background of globalisation. The failure to adequately tax capital income and profits has led to an erosion of the tax base and a disproportionate shift of the tax burden onto labour. The shift from income to consumption taxes has made systems more regressive. International agreements are needed to ensure balanced taxation of capital and profits, so that public support for fair tax systems can be maintained.

The International Financial System - Market Regulation

12. The recent crisis has revealed the fault lines in the international financial system. Mistakes by financiers and bankers now have direct impact on the lives of millions of working families. Reconfiguring the international financial architecture has become a key task. Thus far the official response to successive financial market crises has been to take initiatives to improve transparency and surveillance. This is undoubtedly necessary, but it does not address the root cause of the problem. There is no evidence that inadequate transparency and surveillance caused the recent crises. However, there is evidence that lenders failed to use much information that was available. The 1980s Saving & Loan crisis in the U.S. and the 1990s Scandinavian banking crisis both show that financial crises can occur in transparent and well regulated systems. The lesson is that ensuring stability in the international financial system requires bolder steps. Restoring long-term growth will require a fundamental reconstruction of the way governments, through the network of international financial institutions and organisations regulate and manage the global market, and especially financial markets. The aim must be to re-harness financial markets to facilitate long-term productive investment.

13. Yet, the debate has been held behind closed doors by bankers and finance ministry officials without the formal input from trade unions and civil society. The G7's newly created "Financial Stabilisation Forum" to be convened by the Chair of the Bank for International Settlements, includes G7 officials and representatives of private finance and banks. Yet again this is a closed club. Regulation is too important to be left to the regulators. Governments must therefore establish a broad-based Independent International Commission mandated to report rapidly on the international regulation framework now needed. As an initial step the Financial Stability Forum must hold public hearings and consultations.

14. Necessary measures include:

- improved fiscal and monetary policy co-ordination both at regional level and between the emerging reserve currency blocks of the Dollar, Yen and Euro to ensure that exchange rates reflect economic fundamentals, rather than speculative operations, and lead to the progressive removal of large long-term current account deficits and surpluses;
- recognition of the right of governments to control short term foreign capital inflows and outflows in the interest of domestic macro-economic and social stability;
- the international taxation of foreign exchange transactions to reduce speculative currency flows;
- binding international standards for the prudential regulation of financial markets covering capital reserve standards, limits to short-term foreign currency exposure, controls and certification on derivatives trading and other forms of leveraged investment built on credit;
- improved information on currency flows, private debts and reserves.

15. The IMF's stewardship of the global economy has caused widespread concern. The crisis has also shown the folly of moves to amend IMF articles to promote full capital account convertibility. The IMF's initial policy recommendations in East Asia and Brazil exacerbated the economic downturn by erring on the side of excessive stringency and austerity in countries which did not have fundamental macroeconomic imbalances. Reform of the IMF is now needed as called for by the UN's Copenhagen Summit for Social Development. Future programmes should promote good governance, employment growth and poverty reduction, rather than austerity. Regular (Article 4) country missions of the IMF must now meet with trade union representatives on a regular basis.

16. Side by side with improvements to the system of international financial governance there is a need for better standards of corporate governance. The Principles on Corporate Governance to be adopted by the OECD Ministers represent a package of rights for all stakeholders. Promotional efforts, including outreach work must be undertaken to reflect this. Action must also be stepped up to combat bribery and corruption on the basis of the OECD instruments, and implemented in co-operation with trade unions as well as business.

Changing the social face of globalisation

17. The crisis has demonstrated the danger of ignoring the social dimension of globalisation. This provoked a broad-based backlash against the trading and investment system itself, and derailed attempts to negotiate what would have been an unbalanced MAI at the OECD. Any future rules governing these systems must incorporate binding social and environmental responsibilities to accompany any rights, whether conferred on countries or companies. The 1999 Seattle WTO Ministerial meeting to launch a new round of negotiations will provide the first real test. A broad-based round must be designed to promote employment and to improve living standards in developed and developing countries alike rather than deregulate markets and intensify competitive forces. Along with environmental concerns, future negotiations must include the promotion of core labour standards and their incorporation in trade policy reviews and establish an appropriate WTO body. Practical measures should be taken to strengthen the co-operation between the ILO and WTO. Anything less than this would put in danger the necessary public support for the implementation of any agreed outcomes.

18. Financial, economic and social stability are inter-linked. Stabilisation policies which bear unfairly on workers will lead to social destabilisation. They will ultimately fail and further undermine the credibility of the IMF and World Bank. Social dialogue between governments, trade unions, and employers is also necessary to build consensus over social and economic development goals and means of action. Strong social institutions, including trade unions, are indispensable for the development of human resources and the mediation of disputes over the allocation of resources. The new architecture for global financial stability and sustainable development must include the social code as developed by the G8 and World Bank.

19. The Bretton Woods Institutions and the Regional Development Banks must make country adoption of the ILO Declaration on Fundamental Principles and Rights at Work a part of their standard operating requirements. To qualify for ongoing adjustment assistance, countries must abide by and enforce core labour standards. Finance ministers and the international financial institutions must break with the traditional mould whereby implementing labour standards are viewed as the sole province of labour ministers. Such standards are needed to ensure that labour markets produce an appropriate distribution of income that can then support real economic development founded upon the expansion of domestic markets. They are also needed to create the counter-vailing political powers that can stop corruption; a phenomenon which has distorted the development process and undermined the allocative efficiency and stability of financial markets. The OECD Guidelines for Multinational Enterprises should be updated to cover all core labour standards. For them to be meaningful, however, the current Review must ensure that they have an effective implementation mechanism.

A G8 Employment Dialogue

20. Transforming sustained demand growth into job creation and falling unemployment requires action to develop adaptable labour markets and a synchronisation of both the demand and supply side of economies. The country by country monitoring of the OECD Jobs Strategy has become narrowly focused on labour market deregulation, which has become synonymous with weakening trade unions and dismantling wage bargaining structures, reducing workers' employment protection and penalising the unemployed. A new approach is needed. In the global economy competitive advantage will lie with those countries that have strong social cohesion built on investment in education and training, health-care and a sound industrial relations system founded on strong trade unions. The most successful countries, both developed and developing, will be those with institutions that are able to balance and rebalance the market pressures of flexibility and dynamism with the social pressures for security and dignity. People must be entitled to have a voice on their employment conditions and economic development.

21. There is consensus among G8 and OECD governments that investment in human capital is a key to the future. However, much more has to be done on ways of financing life-long learning, which builds human capital through investments by enterprises, individuals and the public sector. Identifying effective responses, within each country, to questions of public and private financing of education and training can be achieved only by building partnerships through which education and labour ministries co-operate with trade unions and employers.

22. In Europe a process is now underway to implement the targets for employment issues set out in the 1997 Luxembourg Summit. At G8 and OECD levels trade unions are also ready to enter into dialogues with governments and business to manage economic change. The areas for potential agreement include:

- translating lifelong learning into reality by upgrading workers' skills and reforming education systems;

- producing coherence between systems of social benefits, minimum wages and pay structures to remove poverty and facilitate labour market integration;
- ensuring the effectiveness of active labour market programmes to assist the groups and regions at risk;
- integrating youth and women into the labour market;
- harnessing technological change, stimulating inclusive approaches to innovation and promoting socially acceptable forms of work organisation.

23. Restoring demand and employment growth must take place within the framework of sustainable development as agreed in the social, environmental and economic pillars of Agenda 21 of the Rio Conferences. The social objectives of mitigating employment displacement and ensuring equity must be at the centre of strategies to implement sustainable development. This calls for joint action by Labour, Finance and Environment Ministers and their respective international organisations in which the OECD can be the catalyst. The overall purpose of a sustainable development strategy should be to secure the participation of workers and their trade unions in needed changes to the world's unsustainable patterns of production and consumption. Without this engagement, targets for change will continue to experience limited success. Employment transition must secure the confidence of workers that their livelihood will not be lost, despite structural change.

Conclusions

24. Preventing a global slump and building the foundations for recovery and sustainable development is a challenge to the leadership of the world's major democracies in the industrialised and developed world. Globalisation is man-made and is not a force of nature, even if at the present time it often gives the appearance of being out of control. The real question facing the international community is: does the political will exist to build international policies and institutions to manage the process of globalisation to meet the needs and aspirations of people?