



TRADE UNION ADVISORY COMMITTEE
TO THE ORGANISATION FOR ECONOMIC
COOPERATION AND DEVELOPMENT
COMMISSION SYNDICALE CONSULTATIVE
AUPRÈS DE L'ORGANISATION DE COOPÉRATION
ET DE DÉVELOPPEMENT ÉCONOMIQUES

**OUTCOME OF THE MEETING
OF THE OECD COUNCIL AT MINISTERIAL LEVEL
Paris, 4-5 June 2008**

**EVALUATION
By the TUAC Secretariat**

1. The 2008 OECD Ministerial Council, chaired by the French Finance Minister Christine Lagarde together with the associated OECD Forum focussed on the theme “Outreach, Reform and the Economics of Climate Change”.

Economic Situation

2. The Ministers’ discussion of the economic situation was preceded by the release of the OECD Economic Outlook N°83. The OECD revised down its forecasts of growth and now believes that inflation will be higher than predicted in December 2007, primarily due to more expensive energy and food, which will squeeze real incomes and raise prices across the industrialised countries. Nevertheless, the OECD believes that following the series of combined crises which it hadn’t predicted a year earlier, the worst in financial markets seems to be over. The message of the Outlook is to call upon policymakers to be careful not to provide too much stimulus as “a ratcheting up of inflation expectations remains a potent threat”. In order to deal with the “fall-out on demand from current financial market distress” the Outlook states that “it will be necessary to re-visit the prudential and supervisory framework for financial markets” based upon the Financial Stability Forum recommendations.

3. These relatively sanguine recommendations lay behind what are very muted conclusions by the Ministers where they praised the resilience of their economies that they claim is due to the “structural reforms and sound macroeconomic policies pursued over recent years” and “took note” of the rise in food and commodity prices. Their only hint of concern on the social impact is in agreeing “to closely monitor the social and economic impact of such trends.”

4. It is hard to believe that the Ministers were meeting in what observers say is in several major economies likely to be the worst financial crisis since the depression of the 1930s. The conclusions fail to respond to the call on in the TUAC statement to halt the contagion and ensure that measures taken have a specific focus on raising the quality and quantity of jobs, as well as addressing the lack of transparency and effective regulation of global capital markets.

5. With regard to OECD reform the meeting was the first since the 2007 decision to invite five countries, Chile, Estonia, Israel, Russia and Slovenia, to open negotiations to become full OECD members and to strengthen OECD engagement with a range of large non-member countries, notably Brazil, India, Indonesia, China and South Africa with a view to possible membership. Ministers from these ten countries took part in the meeting as did trade union

leaders from several of the accession countries in the TUAC-BIAC consultations. With regard to the OECD's future priorities – the Ministers “agreed that the economics of climate change, pressure on resources, inequality and global poverty remain high priorities for the OECD and should be among the themes pursued.” The question remains of what future work will now be undertaken on inequality following publication of the OECD report – “Growing Unequal” later in the year and in particular the response to the TUAC call for “equity audits” of OECD policy. This will be a high priority for TUAC follow-up.

Climate Change

6. The economic policy response to climate change was a central part of the Ministerial meeting and the related OECD Forum. The conclusions agreed that urgent policy actions, along with international co-operation in addressing both climate change mitigation and adaptation are needed and to help share the costs of action amongst countries through international support for climate change policies. This marks beneath the surface disagreements about how far to proceed on issues such as auctioning of carbon permits and other specifics of policy. With respect to TUAC's call for a better understanding of the employment and social impacts the Ministers agreed to analyse the economic costs, benefits and distributive aspects of climate change adaptation and mitigation policies and stressed the importance of economic analysis and to compare concrete national and international policy options and their impacts in different regions and sectors. They agreed to focus on fuels, food prices and climate change as urgent policy challenges related to the distribution of income and growth within economies.

Political Economy of Reform

7. The Ministers had a specific discussion of what is being called the *Political Economy of Reform*, i. e. the way in which political and institutional factors influence the design, decision-making process. Regrettably, however, Ministers didn't take into account that the design and implementation of (structural) reforms as advocated by the OECD is often not sufficiently founded on evidence-based analysis but based on strong prior views on the role of labour market institutions. The most recent case in point in this regard is the Economic Outlook that implies that weakening trade unions would lead towards a lower structural unemployment (as measured by the non accelerating inflation rate of unemployment NAIRU). For countries where trade union density is high, it is argued, a 10-percentage point reduction in union density would imply a decrease of 0.35 percentage points of the NAIRU. Leaving aside the issue whether that would significantly contribute to lowering unemployment, it must be emphasized that the assertion is at odds with a large part on the empirical literature on the subject, including the reassessment of the OECD Jobs Strategy. TUAC will be challenging this vigorously in the period ahead.

8. Rather than attacking trade unions, further analytical work by the OECD with regard to the *Political Economy of Reform* must focus on the provision of new and more robust evidence for policy learning and adjusting prior to new knowledge. It must also be acknowledged that successful reform must mean something else than lowering wages and benefits.

Sovereign Wealth Funds (SWFs)

9. The Ministers also adopted a declaration on Sovereign Wealth Funds a draft of which had been circulated in advance. The text reflects on-going concerns at the OECD about the risk of politically-motivated SWF investments that would backlash by increasing the number of national security measures on foreign investments, and hence restrict “freedom of investment” in OECD recipient countries. The declaration endorses an OECD Investment Committee report on national security which sets out four principles to deal with national security restrictions to FDI: transparency, predictability, proportionality and accountability. Future OECD work will address the latter principle, and in particular the procedures for parliamentary and regulatory oversight, and may well develop into formal country monitoring and peer review processes. The declaration also notes the work that is conducted separately by the IMF on governance of SWFs. The OECD Investment Committee report calls on the IMF policy dialogue with SWFs to integrate relevant OECD guidance, including the MNE Guidelines and asset management and pension-related guidelines.

Development Assistance

10. The OECD Ministerial Statement recognizes that global poverty is an urgent issue to address and that it should be one of the themes pursued by the OECD. However, the OECD appears to believe that trade is key to achieve poverty reduction. The statement fails to mention “decent work” or acknowledge that it is the only sustainable way to reduce poverty. It also ignores trade union concerns that many donors will not meet the commitments already made to scale up aid to meet the UN target.

11. A separate declaration on policy coherence for development was adopted by Ministers, encouraging the OECD “to continue to enhance understanding of the development dimensions of our policies and their impacts on poverty reduction”. Respect for basic labour standards should be one criterion against which to measure impacts on poverty reduction. Ministers also reaffirm their endorsement of the Paris Declaration on Aid Effectiveness, but they do not respond to calls by trade unions to turn the Paris Declaration into a meaningful instrument to reform aid practices.

Conclusions

12. The Ministers also discussed the OECD’s evolving role in the international governance architecture and “welcomed the efforts pursued by the Organisation to coordinate better with other international organisations and encouraged the Secretary-General to move forward in this direction.” TUAC will in particular be calling for an enhanced relationship between the OECD and the ILO. TUAC will be closely monitoring and engaging our affiliates and Global Unions partners in the follow-up to these conclusions.