

## **SHAPING THE SOCIAL DIMENSION OF GLOBALISATION**

### **Trade Union Statement to G8 Labour and Employment Ministers' Conference Dresden, 6-8 May 2007**

#### **I. INTRODUCTION AND SUMMARY**

1. It is of central importance that the G8 Employment and Labour Ministers are to address the social dimension of globalisation at their Dresden Conference. The three areas of action identified in the agenda of the Conference -- strategies for more and better employment; providing social protection in developing countries and emerging countries; and the social responsibilities of business; -- are important ones for the working people in both G8 countries and globally. The G8 along with the international organisations represented bear special responsibilities in the governance of the global economy given their economic weight and the leadership role that they should provide in the areas of human rights, democracy and social progress. Meeting one month before the G8 Heiligendamm Summit, the Labour and Employment Ministers' Conference must also ensure that G8 Heads of Government address the social dimension of globalisation and provide a practical platform for action.

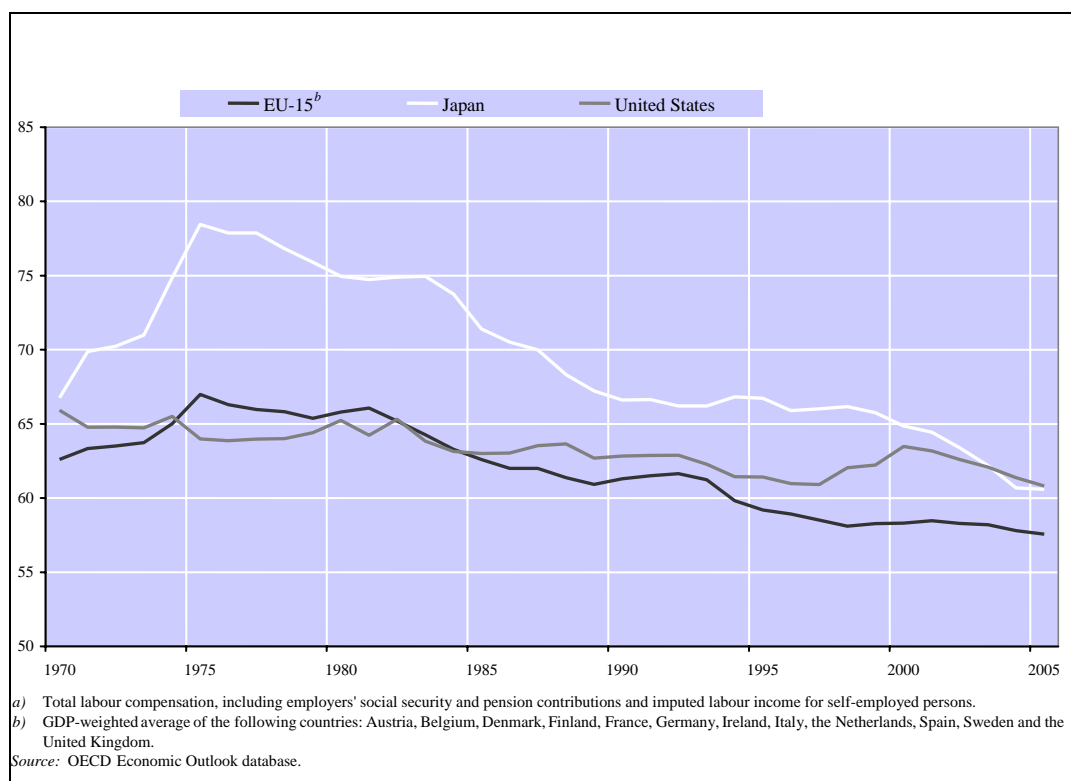
2. The world economy is integrating fast, presenting the world's people with unprecedented opportunities, but also unparalleled challenges. With the entry of China, India and the former Soviet Union into the global economy, the integrated global labour force has doubled over the past 20 years. On the one hand, we have the opportunity to provide decent work for many of the billion people who are unemployed or underemployed and to relieve the poverty of the 1.4 billion people working for less than the two USD a day<sup>1</sup>. On the other hand, unless governments manage this enormous expansion of the global labour force, it threatens to undermine the wages and working conditions of workers in the industrialised economies. This will not only degrade living standards, but will generate resistance to globalisation and deny us the improved living standards globally which greater economic integration and growth promise.

3. Governments thus far have failed to manage globalisation and have failed to assure that workers participate equitably in the benefits of economic growth. This is evident in the falling share of wages as a proportion of national income throughout the OECD as shown in the graph. The benefits of globalisation in the industrialised countries have accrued disproportionately to the wealthiest families, while the majority of working families are excluded from sharing in increasing productivity and economic growth. As a result, the OECD notes that in 17 of 20 countries surveyed, income inequality has risen, undermining social cohesion and fuelling political alienation.

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<sup>1</sup> ILO, Growth and Decent Work: Strengthening the Linkage, 2006

### Wage Share of National Income EU-15, Japan and the United States, 1970-2005



4. To achieve a more just and sustainable global economy, governments must exercise more active governance to assure that the benefits of globalisation are shared more equitably with workers in both the developed and developing countries. This requires an approach that can be called 'joined-up government' that includes economic, finance, trade and development Ministers. G8 Employment and Labour Ministers have to lead this effort to build a social dimension to globalisation to assure that wages rise along with productivity in both the developed and developing and transition economies, and that excessive wage disparity within economies is avoided.

5. To ensure *more and better employment in G8 countries* (§9-25) and respond to precariousness and insecurity, no single instrument is sufficient. The OECD Job Strategy Reassessment has shown that a multi-faceted approach is required, one that provides adequate income, basic protection in line with the requirements of decent work as well as opportunities to move up the income and skill ladder. It has to be recognised that good employment performance is not to be achieved by deregulating the labour market and shrinking the welfare state but by effectively coordinating macroeconomic and social policies with the system of collective bargaining, based on social dialogue.

6. Global Unions representing some 180 million members are therefore calling upon G8 Labour Ministers to ensure that:

- Macroeconomic policy, institutional coordination and the structures of economic policy governance are targeted at promoting employment. Labour Ministers must act as a

responsible force for more active growth-orientated economic policy management by governments and central banks;

- All workers and their families can live decently and contribute fully to the economy. Decent minimum wage floors established through collective bargaining or government regulation should be complemented by wider packages of in-work benefits;
- Policies to reintegrate unemployed workers in the labour market – “Activation policies” - must be rebalanced to give job-seekers greater opportunities rather than penalising them. The ‘revolving door effect’ of activation policies should be shut, benefit recipients must no longer be pushed into low-paid and precarious work, and appropriate finance must be available in order to link activation and training policies;
- Jobs are made available while counselling and training are combined to make activation strategies work;
- Workers are given opportunities to develop adaptable skills not just at work but in conditions of flexibility that give them the possibility to better balance work and family life;
- Labour Ministers work with Environment Ministers to put in place programmes for just transitions and the creation of “green jobs” to meet the social and economic impact of climate change and the necessary mitigation measures.

7. With regard to *broadening and strengthening social protection in developing countries and emerging economies* (§26-39). Ministers should recognise that:

- Poverty eradication and social security for the poor in developing countries cannot be achieved through the ‘trickle-down effects’ of growth;
- Policies promoting the design and implementation of social security systems should be guided by principles derived from the International Labour Conference in 2001;
- Commitments made previously to achieve the Millennium Development Goals and to support policies building and strengthening social security systems in developing countries must be met;
- Donors and international organisations must better coordinate their support and cooperate more closely in order to promote capacity-building measures targeted at advocates of social protection;
- Universal social security should be affordable and must be linked to the ILO decent work agenda;
- Social policy is a force for productive change and by investing in social policies, countries can offer new mixes of innovation and productivity instead of trying to compete on the basis of low wages;
- Labour inspection must confront new challenges and be strengthened since it has too often played only a marginal role in the provision of social protection. G8 Labour Ministers, in close cooperation with the ILO, must extend their commitments to support policies building strong and well functioning labour inspectorates.

8. With regard to *corporate social responsibility* (§40-51), Ministers should ensure that:

- The integration of decent work and core labour standards across all international institutions, including through sustained ILO-WTO cooperation and at the IMF and World Bank, becomes a key element of the social dimension of globalisation;
- Policies concerning corporate social responsibility must ensure they do not undermine international labour standards, trade union recognition and good industrial relations, which are crucial to building the social dimension of globalisation.

- Policies at the outset affirm a strong commitment to ensuring the promotion of good industrial relations and achieving respect for fundamental workers' rights throughout the international trade and investment system;
- G8 Ministers should take the lead in improving the implementation of the OECD Guidelines for Multinational Enterprises and in particular ensure that they have functioning National Contact Points.

## **II. STRATEGIES FOR MORE AND BETTER EMPLOYMENT IN THE G8 COUNTRIES**

### ***Spreading the benefits of growth***

9 Fair distribution of the benefits of globalisation while creating more and better jobs, must become the central priority of government policy. Combating unemployment requires effectively coordinating macroeconomic and social policies with systems of collective bargaining, based on social dialogue involving government, trade unions and employers. Restoring the effective rights of workers to organise and join trade unions is a priority in industrialised countries just as it is in the developing world. Where independent unions exist and bargain, there is less low pay, more secure work, less corruption; there are more efficient economies and societies are more just.

10 To reduce precariousness and insecurity, active labour market policies are required, providing adequate income, basic protection in line with the requirements of decent work as well as opportunities to move up the income and skill ladders. Job protection and in particular prior notification of redundancy should not be seen as rigidity but as offering a chance to prepare retrenched workers to find a productive job elsewhere.

### ***No single formula guarantees good labour market performance***

11. Good labour market performance can be achieved and maintained by different policy packages. There is strong evidence suggesting that an outstanding employment performance can be achieved “by centralised and co-ordinated systems of industrial relations, with a high degree of coverage of collective agreements and often strong emphasis on social dialogue”, combined with a comprehensive safety net, generous unemployment benefits and active labour market policies<sup>2</sup>. It is not acceptable to argue against such systems on the grounds that public policy strains budgets: that ignores the social costs of unemployment, inequality and poverty. Well-targeted and active public policies that steer the economy and the labour market can increase the employment rate, the economy's productive performance, and government revenue. Those countries that have chosen such a path have achieved also healthy growth and productivity performance as well as sound public finances. Moreover, they remain highly competitive.

### ***Set wage floors intelligently***

12. Minimum wages that are set intelligently through government regulation or collective bargaining are important to set a floor in labour markets and prevent a further rise of wage inequality. Nevertheless, minimum wages are no magic bullet in overcoming precariousness

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<sup>2</sup> OECD Employment Outlook 2006, p. 190

and inequality. Based on findings in the OECD *Employment Outlook 2006*, we urge governments to link labour market programmes providing in-work benefits to decent minimum wages. Otherwise the benefits risk being undermined by lower wages and appropriated by employers instead of supporting workers. These in-work benefits must be integrated with progressive taxation systems.

***Social protection: to give confidence for change***

13. By investing in social policies, countries can offer new mixes of innovation and productivity instead of trying to compete on the basis of low wages. On the crucial issue of the welfare state it is sometimes claimed that tax-financed social security, welfare programmes and active labour market policies go along with high economic costs and put growth and economic development at risk. However, there is no negative international relationship between employment rates and the main welfare state indicators, such as the share of transfers in GDP or the statutory generosity of unemployment benefits. Nor is there evidence that employment rates are lower in countries with high overall marginal tax rates.

***Flexicurity – necessary to draw the right conclusions – negotiate change***

14. The Danish employment system has attracted considerable international attention due to a supposedly successful combination of flexibility and security, known as the Danish model of “flexicurity”. However, the perception of the core elements of the Danish model as well as the potential to borrow policies developed in Denmark to use elsewhere is often flawed, overlooking the fact that the Danish model is characterised by an active labour market policy, high levels of unemployment benefits, and a strong management role for employers associations and trade unions in negotiating change and giving security to workers.

15. Flexibility in the labour market that does not merely shift risk onto workers requires a negotiated approach. In order to stop flexibility being determined exclusively by the requirements of business operations and to ensure that workers are able to take part in decision-making regarding flexibility, a collectively negotiated and agreed framework is required.

***Investing in skills, education and innovation***

16. Of central importance is the need for industrialised country governments to invest in education systems and raise skill levels. The 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;
- Encouraging and facilitating agreements between employers and trade unions to make feasible their participation in lifelong learning;
- 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.

Trade unions are prepared to step up their action as negotiators of training and manage change in order to support such an approach; but they have to be engaged as key actors in this process.

***Change of focus – rebalancing “activation policies”***

17. Evaluations of active labour market programs have not always been able to provide strong evidence that programme participants were successfully reintegrated into the labour market. A search for less costly and more effective policy alternatives concluded that regular interventions during the period of unemployment, such as job-search monitoring, intensive interviews, and referrals to vacant jobs were more successful. That has paved the way to what has become known as “activation policies” in many OECD countries. Activation policies redefine relations between the individual and institutions that provide services. Obligations of ‘clients’ to participate in activation measures have been systematically extended. Thus, the balance between rights and obligations has been slanted towards obligations. The balance must be shifted back to create opportunities for job-seekers.

***Jobs must be available, training and counseling must be combined in order to make activation strategies work***

18. For activation policies to be acceptable and successful, beneficiaries must be able to move up the employment and income ladder, benefit recipients must be successfully placed into new employment, and above all there must be jobs available.

19. Evidence reveals that programs focussed only on rapid placement in jobs are particularly inappropriate to reduce benefit dependency over the long term. Programs that combine training with counseling and placement are far more effective than programs pushing recipients into work without regard to its quality as reflected by wages and skills. For labour market policy to be successful without depending on strong economic growth, it is important to close the ‘revolving door’ and to maintain a strong commitment to job creation.

20. Therefore, Labour and Employment Ministers should not call for the mere conducting of regular and rigorous assessments of active labour market policies. They should do more, by committing to an adaptive redesign of active labour market policy. Assessments of active labour market policies also need to take the special position of disadvantaged groups into consideration. For these groups, training and job creation schemes are often successful and such policy measures should not be discarded on the basis of too general an analysis. Instead of calling for a termination of allegedly inefficient programmes Ministers should commit to an ongoing redesign of labour market programmes. In this respect governments must ensure appropriate financing of active labour market policies.

***Coordination of Ministers to create Green Jobs***

21. The challenges posed by climate change require far more attention to be given to coordination of environmental and employment policies. Achieving environmental protection, economic growth and social progress simultaneously demands effective coordination that is the basis of sustainable development. Such coordination will have implications for working families particularly by taking into account the effects of these policies on jobs. All signatories to the United Nations Framework Convention on Climate Change (UNFCCC) are

obliged to provide “national communications” on the implementation of the Convention. As a first step these should report on social and employment impacts and be drawn up in consultation with trade unions. Global Unions insist that it is essential to move beyond the sterility of the “jobs versus the environment debate” and are aware of potential gains for employment in clean technologies, as well as in the adoption of energy efficiency policies. Significant employment opportunities will appear due to “green” production, especially through renewable energy such as wind, wave, tidal and solar power, as well as through use of bio fuels, energy conservation and clean coal technology.

22. New jobs will not automatically be created in the same sectors and places where they are lost. Attention must be paid also to those who will require assistance for the transition, and policies should be designed to ensure social cohesion. The G8 Labour Ministers should develop a programme for ‘Just Employment Transition’, linked to adequate compensation, training & education and re-employment support. It is also necessary to link such a transition plan to a “Green Job” strategy.

***Managing migration requires a rights-based approach and co-development strategies***

23. G8 Labour Ministers should note that trade unions have welcomed the OECD’s decision to undertake a major cross-disciplinary project on migration but have said that it must lead to receiving countries adopting policies for managed migration and integration that are based on recognising the rights of all citizens including migrants as well as co-development strategies with sending countries to reduce involuntary migration. In receiving countries special attention must be given to the education of migrant children and young people, and to their prospects of finding good jobs. The consequences of failing to act, in terms of threats to social cohesion and security in all our communities, are dramatic.

24. The grotesque effects of human trafficking must be confronted and tackled. Illegal and clandestine migration is a growing source of human suffering and exploitation in many societies, and it is clear that a growing gap between rich and poor will aggravate such problems. Legal frameworks for migration based on ILO Conventions 97 and 143 and fully equal rights for migrant workers are obviously necessary, and should be respected. Yet, it is clear that illegal migration cannot be addressed successfully by legislative means alone. Demonstrable equity among all humans is a prerequisite for social cohesion, together with job security and the engagement of civil society in the management of change.

25. The case for social cohesion applies with even greater force for many millions of families who have moved legally into OECD countries to build better futures. If the second or third generations of such migrant families perceive no worthwhile prospects for their future, if they have no hope, disillusionment emerging from their midst will and already does confront countries with grave challenges. In the absence of effective policy measures, the potential for large-scale breakdowns in social cohesion is dangerous. The OECD project must provide robust analysis of the many dimensions of migration issues, and for sound policy advice.

### **III. BROADENING AND STRENGTHENING SOCIAL PROTECTION IN DEVELOPING COUNTRIES AND EMERGING ECONOMIES**

#### ***A growing consensus to build and strengthen social security systems***

26. Poverty and deprivation remain a menace in many parts of the world, most notably in Africa. Moreover, according to ILO figures, 80 percent of the global population lives in conditions of social insecurity, i.e. they are lacking any access to any form of social security beyond the limited possibilities of relying on families, kinship groups or communities to secure their standard of living. And about a quarter of them live in abject poverty. Growth-orientated strategies are not enough and the reform strategies based upon the Washington Consensus are not credible. As the World Bank acknowledges, the predicted ‘trickle down’ effects of growth did not become manifest and did not contribute significantly to poverty alleviation. A study concluded that the reforms advocated mostly failed to attain their objectives<sup>3</sup>. Among the lessons to be drawn is that the poor are not able to “work themselves out of poverty”, unless strategies for creating decent work are in place. They also require assistance through universal access to social security, provided by governments and funded from state revenue.

#### ***Social policy instruments facilitate the process of development***

27. Social policy must also be seen as a major instrument facilitating transformation in the process of development. It enhances social cohesion and resolution of social conflicts and therefore contributes to peace and stability within and between societies. Social policy is what makes economic growth more equitable and hence more sustainable.

28. Labour markets are an extremely important arena for addressing issues of poverty and development as well as the site for the realisation of basic civil and social rights. These rights are captured in the ILO concept of “decent work” which is applicable to all workers irrespective of their employment status and regardless of the level of development of the country they live in. Its crucial role in addressing poverty in developing countries and attaining the MDGs was recognised in the Outcome of the 2005 United Nations World Summit with its call for full and productive employment and decent work for all and in the Ministerial Declaration on Employment and Decent Work for All adopted at the High-level Segment of the United Nations Economic and Social Council in July 2006.

#### ***A framework for the promotion of social security***

29. The International Labour Conference concluded in its 89<sup>th</sup> session in 2001, “social security is essential for the well-being of workers, their families and the entire community. It is a basic human right and a fundamental means for creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of government social policy and an important tool to prevent and alleviate poverty.” According to the vision set out by the International Labour Conference, social security should provide income security in the event of such contingencies as sickness, unemployment, old age, invalidity, employment injury, maternity, extension of the family or loss of a breadwinner as well as covering health care.

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<sup>3</sup> World Bank (2005). Economic Growth in the 1990s: Learning from a Decade of Reform, Washington D.C.



30. Policies promoting social security and aiming at the design and implementation of social security systems should be guided by principles derived from the conclusions adopted by the International Labour Conference in 2001:

- Coverage should be universal and benefits adequate;
- The State bears the ultimate and general responsibility of guaranteeing a framework of good governance and the assurance that benefits will be paid as and when due;
- Social security should be organized on the basis of social solidarity between, inter alia, men and women, different generations, those in and out of work, and the rich and poor;
- Social security systems must be sustainable;
- The rule of law must prevail at both the national and international levels.

31. The conclusions of the International Labour Conference of 2002 on “Decent work and the informal economy” and of the International Labour Conference of 2006 on “The employment relationship” are equally relevant in this area and need to be incorporated fully into policy design and implementation. Moreover, policies promoting social security must be linked to the principles enshrined in core labour standards, the concept of decent work and a well-functioning social dialogue, involving the social partners.

32. It is urgent to put the objective of universality of coverage at the heart of economic and structural policies and reforms in developing countries. Universality of access to a formal system of social protection is more likely to become a reality if implemented through a universal, tax-financed (basic) social security system for which the state provides the regulatory framework and holds the ultimate responsibility. Contributory schemes’ objectives must remain to complement and not replace universal basic coverage. The ILO has the legal mandate to provide technical assistance to improve the governance of social protection schemes in developing countries.

***Social security is affordable and must be linked to the decent work agenda***

33. Social security is affordable. The ILO estimates that only 2 percent of global GDP would be needed to provide the entire world’s poor with a minimum package of social benefits and services (comprising access to basic health care, basic income transfers in case of need, and basic education). Most of these resources could be raised nationally. Nonetheless, substantial global transfers would be needed to help the poorest countries to cope with their problems. It is here that G8 countries and international organizations have a role to play. While affordability of social security must be understood as a function of any society’s willingness to finance social transfers either through taxes or contributions, in developing countries, affordability is also a function of donors’ willingness to support national efforts. To succeed, reforms of social protection systems must rely on nation-wide consensus and must be negotiated with all partners including trade unions. Blanket prescriptions by international agencies such as the World Bank should be avoided as there is no one system of social protection applicable to all countries.

34. Stepping up efforts to provide basic social protection is a reliable way of reducing poverty and insecurity in developing countries; it also contributes to achieving the first Millennium Development Goal by 2015. Thus, it is welcome that G8 Labour Ministers are going to address the lack of social security coverage in developing countries. However, Ministers must go beyond expressing mere concerns and ensure that the objective of universal social security coverage features prominently in development cooperation activities of G8

countries. In order to strengthen the social dimension of globalisation, G8 Labour Ministers must pledge their strong commitment in order to ensure that:

- The ILO decent work agenda is made a priority in official development assistance as well as in development-related activities promoted by international organizations, including the IFIs;
- Policies aimed to strengthen the social dimension of globalisation involve increased financial commitments and a strong prioritisation of social protection within the development agenda;
- Donors better coordinate their efforts, in particular with international organisations to ensure more and better support for the design and implementation of democratically agreed concepts of social security;
- Donors and international organizations cooperate more closely on technical cooperation in the area of social protection;
- *THE DEVELOPMENT AGENDA IS LINKED TO ILO TECHNOLOGICAL COOPERATION* in ensuring that the application of labour and social protection legislation extends to all people.

35. Trade unions support the suggestion by the ILO to gradually build and extend social security in the poorest countries by starting with basic elements such as:

- Universal access to basic health care, pluralistically financed (tax, private, equity funds and community-based components) and linked to a strong central system;
- A system of family benefits that helps to combat child labour and permits children to attend school;
- Basic cash transfers programmes of social assistance associated with public work programmes and similar labour market policies (like cash for work programmes) that helps to overcome abject poverty; and
- Basic universal pensions for old age, invalidity and survivorship that in effect support whole families.

36. Effective mechanisms to deal with migrant workers' rights to social security are lacking. In a context of increased migration flows worldwide, trade unions urge G8 ministers to consider the issue of the portability of social security rights across borders as one of the necessary measures to ensure that migrant workers are able to enjoy the same rights as local workers. In addition, legal frameworks for migration based on ILO Conventions 97 and 143 and fully equal rights for migrant workers are obviously necessary, and should be respected. Trade unions are ready to contribute to governments' initiatives in this area, whether at the national, bilateral, regional or global level.

### ***Labour Inspection – a decisive step towards better social protection***

37. To facilitate the implementation of both decent work and social protection systems, labour inspection is essential. Labour inspection has the role of ensuring that labour laws are given practical effect and become actual standards for workers. Labour inspection is central to tackling the problems of workers health and safety, and of millions of children of school-age working under disastrous and inhumane conditions. The ILO adopted already in 1947 *The Labour Inspection Convention (No. 81)* with the goal of “ensuring respect for the protection of workers in the exercise of their duties and for promoting legislation adapted to the changing need of the world of work”. At the same time, ILO Convention No. 81 pointed to a new important and independent role of labour inspection in modern society.

38. Regrettably, however, in developing countries and emerging economies, labour inspection is often weak, absent or plays only a marginal role in the provision of social protection. At the same time labour inspection has to face new challenges related to globalisation, the growth of smaller enterprises as well as of small and highly more mobile units of globally operating corporations that are often difficult to supervise the continuing trend of enterprises to exist for only a limited period of time, the accelerating change of ownership, the appearance of virtual enterprises and of global production networks and last but not least the increase of cost and competition pressures at the expense of social concerns.

39. In order to cope with new challenges, the ability of labour inspectorates to act according to their role and responsibility must be strengthened. An international exchange of knowledge and experience among labour inspectorates should be promoted. The G 8 Labour Ministers must extend their commitments to support, in close cooperation with the ILO, policies building strong and well functioning labour inspectorates in developing countries.

#### **IV. CORPORATE SOCIAL RESPONSIBILITY**

##### ***Trade, employment and core labour standards***

40. Governments themselves have the first responsibility to strengthen the protection of workers' rights at the global level. Core workers' rights as defined by the ILO - freedom of association and of collective bargaining, to be free from discrimination, forced labour, prison labour and child labour - are fundamental human rights and must be respected. Where these rights are respected and workers are free to form unions this is also a key part of the solution to growing inequality.

41. Some of the most flagrant cases of repeated violation of union rights in countries such as Colombia, Burma, and Belarus, have been exposed and clearly condemned under ILO procedures. Core workers' rights are under threat in export-processing zones and in many developing countries as companies threaten to shift production to China or other countries where the rights of workers to organise are not respected. These problems cannot be addressed through voluntary measures alone. Core workers' rights as defined by the ILO must become an international benchmark applied through different international institutions – the IMF, World Bank, the OECD and the World Trade Organisation. Assuring the human rights of workers must be recognised as being at least as important an objective of international trade and investment agreements as protecting intellectual property rights or rights of foreign investment.

42. 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. The growing international concern reflected in the publication in 2007 of a joint report by the WTO and ILO on "Trade and Employment". This significantly concluded that "Freedom of association and collective bargaining rights do not harm the export potential of developing countries and may even stimulate it"<sup>4</sup>.

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<sup>4</sup> WTO-ILO "Trade and Employment : Challenges for Policy Research", February 2007, page 66

43. Different divisions of the World Bank Group have taken important steps to ensure that Bank-financed activities do not contravene internationally recognised workers' rights. The G8 should ensure that the Bank take further measures to end the practice whereby, through assistance-eligibility scores and country-level policy advice, developing countries are pressured to eliminate various types of workers' protection. In particular, it must cease to promote labour market deregulation through its *Doing Business* publication and its Country Policy and Institutional Assessment (CPIA) exercise, both of which undermine countries' efforts to support decent work and improved social protection. Both IFIs should align their objectives with the work and standards of the ILO and fulfil their commitments to improve their cooperation and consultation with trade unions.

### ***The social responsibility of business***

44. Multinational enterprises (MNEs) search for cheaper production sites as well as for new markets. They act as coordinators of global production networks based on contract manufacturing and subcontracting operations. While contract manufacturers and subcontractors are not part of the structure of MNEs, they do nonetheless depend on them. So do workers in global production networks with wages and working conditions often worse than at the center of operations. This allows firms to offshore production and to cut down on their permanent workforce, and rely instead on the use of contract labour.

45. Private equity and hedge funds have in a short period become owners and movers of vast pools of capital, significant swathes of the economy and of employment. Trade unions' experiences with employment and working conditions linked to private equity are alarming. The high rates of return required to finance private equity debt-driven buy-outs can jeopardise target companies' long-term interests and provision of decent employment conditions and security for employees. Rather than corporate restructuring for the purpose of shared productivity gains and increased competitiveness, private equity firms now appear to be looking at extracting maximum value – including via tax avoidance – over a short period before reselling the company at a substantial premium. Hedge funds' aggressive shareholder activism is not compatible with the pursuance of the long term interest of listed companies. Systemic risks to financial market stability are also exacerbated by the opacity in which both private equity firms and hedge funds are operating.

46. Policy responses should be developed by the G8 so that the expanding activity of hedge and private equity funds does not jeopardise long term responsible business conduct, financial market integrity and government revenues from corporate taxes. Workers' rights to collective bargaining, information, consultation and representation within the firm should be regarded as key mechanisms by which the long-term interests of private-equity-backed companies can be secured and promoted. Transparency, prudential rules and risk management of hedge funds and private equity need to be brought into line with traditional institutional investors' regulation. Corporate governance regimes need to be reformed to improve responsible business conduct of companies under private equity regime or whose ownership structure includes hedge funds. Global unions are calling on the G8 to establish an international regulatory task force on private equity involving relevant international institutions.

47. These developments, but also concerns regarding a set of wider issues, cause trade unions to call upon G8 Labour Ministers to contribute jointly with their government colleagues to ensuring that corporate social responsibility initiatives support and do not

undermine international labour standards, trade union recognition and good industrial relations, which provide the key to the social dimension of globalisation.

48. In addition to introducing more binding and effective international regulation, governments can improve the social responsibility of business through a range of measures. Governments should support efforts by the social partners to jointly address issues of corporate responsibility. To date, more than 50 multinational enterprises have signed Framework Agreements with Global Union Federations constituting formal recognition that the companies have social partners at the international level and providing a means to regulate labour practices throughout the companies' operations. G8 members also have to implement the instruments that they have already adhered to. Their commitment to the OECD Guidelines for Multinational Enterprises is of no value unless they have effectively operating National Contact Points (NCPs) involving trade unions and other engaged parties<sup>5</sup>.

49. Seven years after the revision of the Guidelines in 2000, a significant number of NCPs including those in some G8 countries exist only on paper. The G8 nations should take the lead and set a positive example for other governments. A great number of the world's multinational enterprises stem from the G8 countries which mean that they have a special responsibility to enforce good corporate practices. G8 members should start by ensuring that government policy is always in accordance with the Guidelines whether it concerns public procurement, export credits, trade policy, investment policy or other issues. But above all, they must ensure that alleged violations of the Guidelines are properly investigated by NCPs.

50. The global scope of the Guidelines, together with the fact that non-OECD countries are asking to adopt them, reinforce the applicability of the Guidelines as an international tool for all companies. The merits of the Guidelines, however, have remained unpublicised. Governments should therefore devote more resources to their dissemination particularly in developing countries. Trade unions also invite governments to implement the OECD Risk Awareness Tool as a complement to the Guidelines for investors in weak governance zones.

51. Trade unions call on governments to ensure the effective implementation of the OECD Anti-Bribery Convention. Bribery and corruption remain an important impediment to growth and development, distorting as they do the use of an economy's resources. Recent events have damaged governments' credibility in fighting corruption. The G8 should take measures to restore confidence in governments' commitment to the Convention and the fight against corruption.

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<sup>5</sup> See TUAC analysis of cases raised with National Contact Points, [www.tuac.org](http://www.tuac.org)