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Humanising the Global Economy:

The trade union response to the crisis

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"HUMANISING THE GLOBAL ECONOMY:"
The trade union agenda

FIET CONGRESS March 1999

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Introduction

This paper takes stock of the current debate in OECD countries on the orientation of public policy in response to "globalisation" - the increasing integration of economies internationally. It makes some comments on the analysis of "globalisation" and then examines the "social" agenda in four areas:- trade, investment and labour standards; reconciling equity and efficiency in the labour market; international economic co-ordination; and policy towards the public sector. These were some of the priority areas that have been identified as comprising part of the "social dimension" of globalisation (1).

Globalisation - myth or reality

Globalisation - the accelerated integration of economic activity across national or regional boundaries - has become the catchword dominating economic and social policy discussion at the end of the 20th century. Despite the debate between academic economists and commentators as to the extent and effects of globalisation and as to whether this is a new phenomenon, it is more or less irrefutable that there are a series of interconnected developments at work (2) which are profoundly affecting all OECD economies and societies:-

(i) Since the late 1980's **the growth of foreign direct investment** (FDI) has been the main factor driving increased economic interdependence. The focus of this has been regional rather than global. International trade grew twice as fast as GNP during the 1980's, but foreign direct investment grew twice as fast as trade. The growth of FDI slowed in the early 1990's but picked up in 1994 and has risen to record levels in 1995. As a result there has been a significant deepening of international and foreign ownership, in the words of the OECD "never before have so many firms from so many industries invested in so many countries" (3). However, FDI has been concentrated among high and middle-income countries (4). Over the decade of the 1980's, OECD countries were responsible for roughly 95% of FDI outflows and received 75% of inflows. A change has occurred in the mid-1990's and by 1995, the OECD share of outflows and inflows had dropped to 85% and 65% respectively. This was largely due to the growth of FDI in East Asia, including China (whose share of developing country FDI inflows grew from 10% to 38% between 1989 and 1995). It appears therefore that up to 1995 at least, the growth of FDI has been regionally rather than globally driven. Moreover the empirical analysis that has been done on FDI data up to 1993 suggests that "International businesses remain heavily 'nationally embedded' and remain MNC's rather than TNC's" (5). This has implications for government policy towards MNC's.

(ii) Whilst there may be doubts as to the extent to which manufacturing and service companies have become fully globalised, there are no such doubts about the globalisation of **financial markets**. The appearance of the "Eurodollar market" in the 1960's was followed by the collapse of Bretton Woods in the 1970's and the removal of national capital controls and deregulation of the financial sector in the 1980's. The result has been the explosion of cross border lending, the appearance of new financial "products" and the appearance of an oligopolist structure of global financial institutions. Cross border assets held by banks tripled in the decade up to 1993. Daily foreign exchange transactions amount to more than $ 1.2 trillion ($ 1,200 billion). This has reduced national sovereignty and shifted power from governments to financial markets. By the mid-1990's the perception was that this had reduced national sovereignty and shifted power from governments to financial markets. However, the chain events following the Thai Baht collapse in the summer of 1997 have now shown the real impact of financial globalisation. The Asian crisis has led to one third of the world economy being plunged into recession. 100 million people who thought they were part of a growing middle-class have been brutally thrust back into poverty, and the crisis is far from over.

(iii) There has been a shift in the development and diffusion of **technology** to a global level. Access to "state of the art" technology has become a key factor in determining competitivity in many of the growth sectors. On the production side, joint ventures, sourcing agreements and other types of inter-company co-operation have become part of this process. On the application side the integration of information and communications technology (the appearance of "global information society") is now having a radical effect on the organisation of the production of goods and services. Internet use is transforming communication and electronic commerce may soon transform distribution systems. Related to this has been the decline of Taylorist systems of mass production and the appearance of "post fordist" and "flexible" forms of organisation. This has implications both for the "competitive strategies" to be adopted by OECD countries and the feasibility or desirability of pursuing a national approach to managing trade.

(iv) Alongside technological change, the policy shift to **deregulation** in the late 1970's and 1980's has clearly been both a stimulant of the globalisation process and a policy reaction to it. In the mid-1990's the "regulatory reform" debate appears at a cross-roads.

(v) There has been an **opening of non-OECD countries** to this "global market system". The formerly centrally planned countries of Central and Eastern Europe and the former Soviet Union have to varying degrees privatised, liberalised and deregulated their economies. The Asian NIIC's succeeded for a time in pursuing an export-orientated growth strategy. But now in a post-crisis world the era of export-led growth may be at an end. Developing countries in general, some under the pressure of the structural adjustment programmes of the IMF and World Bank, are all seeking more reliance on and exposure to world markets. However, despite the emergence of "new players" the bulk of trade, investment and GNP remains concentrated in the "TRIAD".

The political economy of globalisation

Whatever the macroeconomic significance of the "globalisation" process it has penetrated very extensively the micro level relations between trade unions and employers. Increasingly trade unions are finding that international factors arise as a constraint in their relations with governments and in their relations with the employers.

Government action whether it be in setting tax rates, economic policy management, interest rate policy or exchange rate policy, international constraints are increasingly cited as reasons for inability of government to fulfil the tasks that they are elected in democracies to fulfil. The election of predominantly social democratic governments in Europe for some has been seen as a social reaction to globalisation.

The attitude of employers towards labour unions generally including attitudes to union recognition, their policy towards labour costs and their attitude to technological change and work organisation are again increasingly dictated by international competitivity and international "fashions". The threat of delocation to an offshore site has become the standard play in negotiations and in some cases it has become the reality. These pressures are greatest along the three North/South, East/West "frontiers - Mexico/US, Central/Eastern Europe, China/East Asia. The perception is therefore of a footloose international production system where capital is mobile and labour is not. This is contributing to the imbalance of relative power of unions and employers in the labour market at the same time many of the policies to which we looked to governments to fulfil are being undermined.

For the two ends of the political spectrum this perception may have its advantages.

For the "free market" right this is a wholly desirable situation and it is convenient to exaggerate the loss of local or regional sovereignty. It allows a "deresponsibilisation" of the elites from the results of their actions. Globalisation is being used as catalyst for a new round of policies to "roll back the state" at a time when the enthusiasm for the Reagan and Thatcher supply-side revolutions of the 1980's has clearly flagged. It is argued that the full benefits of the "reforms" of the last two decades will only be felt when all economies and sectors are fully opened up to international competition and "market contestability". Thatcher's "there is no alternative" has now become "la pensée unique". The conservative government in Britain (1979-97) was one of the most vociferous in arguing for the need to conform to a model of competitiveness existing in some unspecified place in East Asia. Yet, at the same time the then Korean government argued that South Korea had to lower its labour standards to stop Korean firms from moving to Scotland and South Wales.

At the same time for some on the "left" globalisation represents a convenient opportunity to rediscover a capitalist conspiracy or reassert the concept of "socialism in one country" or at least "protectionism in one country". But a populist reaction is dangerous terrain. In Europe it is firmly occupied by the National Front in France or concepts such as the Austrian extreme right's notion of a "Europe of Fatherlands".

The real "conspiracy" is not globalisation, it is to argue policy paralysis as a result of it. A spectrum of mechanisms for governance is available with, at one end of the spectrum a set of "hard" international regulations covering specific fields (e.g. WTO); in the middle, looser policy co-ordination (e.g. G7, OECD, IMF); regional integration (e.g. European Union); continuing national regulation; and more loosely regional or district level policies. Whilst binding, "hard" mechanisms of regulation at a global level will only be able to cover a limited number of areas, and they are therefore not an alternative for the looser forms of co-ordination and co-operation in other areas.

The "social" agenda:-

(i) Trade and investment and core labour standards

Globalisation has drawn dramatic attention to the need to guarantee core workers rights on a global basis. The regulation of labour standards through the enforcement of certain global minima is not a "new issue". It has been part of the response to previous waves of globalisation:- the creation of the ILO after the First World War; the Havana Charter and the attempt to create the International Trade Organisation after the Second World War. The current wave of globalisation and the creation of the World Trade Organisation have given the issue new focus. It is perhaps a key area where we need a hard regulation, which is internationally binding.

Achieving a "hard" regulation is still some way off and there is even some criticism (6) from within the labour movement on the single-minded pursuit of a "Social Clause". Nevertheless, it must be pursued. Achieving other goals will be difficult as long as core labour rights can be easily denied. Functioning civil society is necessary to build up a momentum for satisfactory governance of global markets. Moreover, given the fact that the world trading system has moved to guarantee the rights of intellectual property, investors' rights, and even environmental standards, it will become increasing difficult to deny human rights.

Over the last three years, there has been perceptible progress in shifting "conventional economic wisdom" to seeing core labour rights as "good thing" economically and socially as opposed to either an irrelevancy or a market distortion. Focusing on core standards (cf.:- freedom of association, rights to collective bargaining, freedom from forced labour or prison labour, freedom from child labour exploitation and non-discrimination) has allowed pretty universal acceptance of them as inviolable human rights in a way that the listing of 170 ILO Conventions would not. The agreement on the ILO in 1998 of a Declaration on "Fundamental Principles and Rights at Work" has facilitated this providing a system wide standard (7). The empirical and theoretical analysis of the OECD (8) and World Bank (9) now regards core standards and by virtue of this trade union recognition as at least neutral in their economic effects, and at best positive. The mainstream thinking of those involved in development assistance has also shifted to see core labour rights as a part of "participatory development and good governance" strategies (10).

Five to ten years ago, far more countries and commentators would have argued that authoritarianism and free markets were the necessary routes to achieving economic lift-off. Now they tend to remain silent. The fact that in 1997 the OECD was ready to censure the Republic of Korea - a new Member - for not living up to commitments on freedom of association and collective bargaining given when it joined the Organisation, is highly significant. It did not happen in the case of Mexico's membership of the OECD and would have been unthinkable even five years ago.

The debate has therefore moved on to enforcement mechanisms. The "stand off" on labour standards at the WTO Ministerial Council between the United States and the majority of EU countries on the one hand and many developing countries on the other, leaves no one in any doubt about the difficulties of getting the issue into the WTO mechanism. There is visceral hostility amongst many trade officials about the issue. But despite their efforts to treat it as a "non-issue" labour standards issues still dominate much media coverage of trade affairs.

Urgent follow up has to focus on the need to:-

- continue to strengthen the ILO machinery for the follow-up to the Declaration;

- start a real dialogue between the WTO and the ILO on labour standards;

- ensure the effective treatment of labour issues in any future multilateral investment agreement and strengthen the enforcement of Guidelines for Multinational Enterprises;

- the further use of the US and EU GSP labour rights machinery;

- integrate obligations for core labour standards into all of the World Bank's lending policies and IMF conditionality;

- develop targeted consumer boycotts on persistent violations of core standards;

- continue to ensure that codes of conduct with companies or industry associations have effective independent verification;

- develop the OECD's monitoring and "peer group pressure plus" system for the respect of core standards in Member countries;

- extend labour standards clauses in hemispheric and regional trade agreements.

None of these propositions are revolutionary in nature, yet they are all attainable and their attainment would make a difference. Over time with productivity growth it would allow unions to "bring the bottom-up" (11) in the global system.

The process of European political and economic integration has of course allowed cross- frontier regulation of labour standards to move well beyond the guarantee of core workers' rights. For many on the centre-left in Europe, the European Union's "Social Dimension" is the response to globalisation (12). The European trade union movement has sought:- to establish a framework of minimum standards to stop "social dumping"; to establish consultation, information and negotiation rights with multinational companies at a European level; to expand the structural funds of the European Community. One of the most significant developments in this process has been the passing of the European "Work's Council" Directive, requiring multinational companies with more than one thousand employees to establish consultative machinery for their workforces at European level.

It should also be mentioned that irrespective of mechanisms of global governance given their national characteristics MNC's do still open themselves up to points of leverage. At the same time some international trade union company campaigns are becoming more targeted and sophisticated.

(ii) A "socially acceptable" model of competitiveness

Guaranteeing workers' rights in the international system is a necessary but not a sufficient condition for re-establishing social progress in a global system. Moreover, the reappearance of the "Eurosclerosis" debate against the background of rising European unemployment is in danger of stalling progress on the European Social Dimension. If the "social agenda" is to progress, the battle of ideas has to be won to show that it is possible to manage change in firms, industries, regions and labour markets in socially equitable way. A "model" of industrial organisation has to be developed which is both competitive and socially acceptable. OECD countries have to restructure on the basis of a high set of labour standards not on the basis of a low wage model of development.

Within the OECD, there are two quite divergent analyses of labour markets which have crystallized in the debate over European unemployment. The conventional "neoclassical" wisdom of the majority of Finance Ministries in OECD countries is that the origin of the problem lies in the inability of the labour market to adapt to macro economic shocks over which governments now have little control. The focus of policy is therefore to reduce "natural" rates of unemployment through a search for labour market flexibility. This has been behind the recommendations in the OECD Jobs Study (13) to decentralise collective bargaining systems; remove administrative extensions to agreements; weaken minimum wage regulation; and to use competition in product markets to keep downward pressure on nominal wages. Restriction of unemployment benefits goes in the same direction.

However, there is strikingly little empirical support for many of the policy elements described and short of "something turning up" little confidence can be given to such policies reducing unemployment through high-quality employment creation. The "unemployed poor" risk being transferred into "working poor" with the same social consequences. These doubts were echoed by the OECD itself in the 1996 OECD Employment Outlook (14) which honestly reviewed the evidence on wage dispersion and employment creation. Moreover, countries as such as the Netherlands, Ireland and Denmark have all succeeded in combining strong economic performance and equity by not following the "Anglo-Saxon" model. It is also significant that recent meetings of OECD and G8 Labour Ministers have now recognised the problems associated with low paying jobs.

A very different view of the policy options emanates from work being carried out in the OECD with regard to:- technological change; the nature of "flexible organisations"; skill acquisition and education policy; and corporate governance issues. The changing strategies of firms to the global market are seen to be a key factor. One interpretation of this work is that firms in the OECD area are becoming polarised. On the one hand there are those trapped in Taylorist forms of production having to compete in an ever tougher global market with low wage competition from non-OECD countries. Increasingly it is not the firms themselves, which have to compete but the workers in different countries bidding for their jobs with the same employers. On the other hand there are firms who have shifted to new forms of work organisation in which a high premium is given to the flow of knowledge and innovation. These "high skill - high trust" organisations compete in a different and clearly more benign world than their Taylorist rivals.

The policy implications of this are that governments can move their economies onto higher growth paths by encouraging technological diffusion, innovation, "good practice" management techniques and the development of appropriate infrastructures for the "information society".

"Learning societies" and knowledge-based firms are the key to success. In this scenario labour market deregulation is not a central issue. Internal functional flexibility of workers in line with changing work organisation is much more important to firms. Flexibility to "hire and fire" looks at best irrelevant and at worst could encourage the low wage/ low skill route to competitiveness. The challenge for OECD countries is how to move the whole of their societies and not just an elite onto a "high route" to competitiveness.

Many of the same issues arise in the parallel debates taking place on corporate governance around the issue of "stakeholder capitalism"; on strategies for regional, district or community level development strategies; and on the development of sustainable consumption and production. The OECD Guidelines on Corporate Governance being developed in the first half of 1999 are likely to have a "stakeholder" chapter.

Establishing a "new paradigm" in this area is not a question of "hard" international regulation, it is a question of shifting attitudes and winning the arguments and shaping the strategies of different levels of government and firms.

(iii) International Economic Co-ordination

For some time there have been calls for a more "expansionary macroeconomic strategy" and a "new international structure" to co-ordinate policy built on the existence of the G7 (15) as a necessary condition for fighting unemployment. Progress in this area faces three central problems:- diverging analysis and political priorities between the "TRIAD" North America, Europe and Japan within the G7; the hegemony of Central Banks; and the related globalisation of financial markets.

Diverging priorities in macroeconomic policy have to some extent replaced the supply-side consensus of the 1980's, but they have prevented a co-ordinated policy response coming from the G7. Despite differing emphasis within the Clinton Administration, the broad approach has been to "keep growth going" until inflationary constraints really do appear. The success of the fall in measured unemployment to below previously stated "natural rates", remains clouded by the prevalent growth in poverty, declining real wages and insecurity but nevertheless has reflected an accommodating monetary policy. Japan has also shown itself ready to intervene through traditional public work programmes when faced by genuine recessionary fears. It is in Europe where Finance Ministers and Central Banks continue to inflict "monetary masochism" or more accurately "monetary sadism" on their populations. The battle is now being fought for the economic architecture and hence priorities of the post Economic and Monetary Union period. The central issue must be to shift policy to a less deflationary stance. The political changes in Europe now help. Even the OECD has warned of the dangers of the timing of fiscal restriction, though of course it does not disagree with the goal (16).

Given the power over monetary policy now vested in independent central banks, it is clear for the need to "reform the objectives of central banks so they will support a pro-growth regime instead of thwarting it" (17). The one dimensional pursuit of price stability has now to give way to approach which now does allow decisions to be made on the balance of risks and trade-offs between the objectives of employment and inflation. The theoretical battle is being fought around whether or not monetary policy does affect the real economy in the longer term. Many of the features of this current debate don't look particularly new, they mirror very closely the policy debate of the 1920's in Europe and the United States. By the 1930's it is significant that the conventional wisdom had shifted to being concerned at falling prices and deflationary expectations rather than inflationary expectations. Policy shifted to putting floors in markets rather than de-regulating them.

The Asian financial crisis has brought home the need to "throw sand in the wheels of international finance". This is now recognised not just by Keynesian nobel laureates such as James Tobin (18), but more dramatically by speculators such as George Soros. "Bond market vigilantes" contribute to the deflationary overkill of real interest rates, unwarranted currency fluctuations wipe-out years of efforts to manage structural change in the real economy. The unsustainable growth of derivative markets raise major problems of the adequacy of prudential rules for dealing with systematic risk. Successive G7 calls for "new financial architecture" look like "too little too late". What is needed is a co-operative framework of action between the BIS, the IMF, the OECD and European Institutions mixing national and international measures. They should include the following:-

National Level Initiatives:

- the establishment of effective minimum reserve requirements for the banking system;
- the introduction of capital standards for other types of financial activity, particularly securities dealing;
- the introduction of more extensive disclosure requirements by financial institutions, so as to increase the transparency of their risk exposure;
- the introduction of minimum deposit periods for short-term financial flows;
- increasing the transparency and accountability of the operations of the large institutional investors and notably the reduction of speculative international exposure of pension funds.

International Initiatives:

- the progressive removal of structural surpluses and deficits on both trade and capital account, between the United States, Europe and Japan together with the further lowering of real interest rates through concerted action by monetary authorities;
- the introduction of an international tax on foreign exchange transactions;
- the certification of financial markets with acceptable risk and prudential controls;
- the introduction of more stable parities between the currencies of the Euro, the Yen and the Dollar;
- the development in the longer term of an international reserve currency;
- the implementation of international agreements on capital taxation;

- increased co-operation between taxation and banking regulatory authorities to eliminate money laundering resulting from illicit activities;

- increased international prudential monitoring of financial markets.

But most important there is a need to open up to the public the debate on financial markets and for this the international trade union movement has called for a broad-based International Commission to be set up to report on the changes necessary.

(iv) The future of the public sector

The leitmotif of the years 1985-95 has been privatisation and deregulation and a withdrawal of the state from direct intervention in the economy or direct ownership. Despite this, "government" expenditure as a share of GDP in the OECD has moved little from around 40% on average over the last decade. The state at different levels remains responsible for administering very substantial proportions of national income. The challenges ahead are increasing the demands on public finances not reducing them:- the ageing of most OECD populations; the need to invest in lifelong education; the need to reverse the decline in infrastructure investment; counteracting the growth in poverty.

The "governance" debate does provide a framework, which allows a non-ideological debate on the role of the public sector. A "social" agenda must on the one hand espouse the need to change the management of public services and administration to make them responsive to the public and not just to save money. "Partnership" approaches to change do work. On the other hand, the pressures of ageing and health care costs, together with the delivery of lifelong learning are going to dominate the debates on resource allocation at the start of the next millennium. This will be a global debate and the US health care reform stalemate was salutary. We need to really "re-invent government" and not re-invent the private sector, paid for by taxpayers.

Conclusions

The response of the trade union movement to globalisation cannot be to bemoan changes or react defensively. It must be to respond and manage them. To fulfil the legitimate aspirations of consumers, employees, investors, markets require effective governance, whether or not they are organised on a national, regional or global scale. Against a background of globalisation it is the forms of governance that have to change not the principle. The challenge is to shape that debate.

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