



PRIME MINISTER · PREMIER MINISTRE

PRIME MINISTER'S  
PERSONAL MESSAGE  
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June 9, 1988

*Subject re Matter  
Ops.*

Dear Margaret,

As Summit host, I met on May 31 with a delegation of labour leaders representing international trade union organizations to receive their views on economic issues facing our countries.

I am forwarding to you a copy of the document prepared by the Trade Union Advisory Committee of the OECD which served as the delegation's formal presentation. I promised I would convey these views to my Summit colleagues.

With warmest regards,

Yours sincerely,

*Boris Yeltsin*

The Right Honourable Margaret Thatcher  
Prime Minister of the United Kingdom  
10 Downing Street  
London, England

Re:

TRADE UNION STATEMENT TO THE  
OECD MINISTERIAL COUNCIL AND TORONTO SUMMIT  
May-June, 1988

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Adopted by the 80th TUAC Plenary Session  
Paris, 29 April, 1988

Introduction

1. In the past year OECD countries have moved further away from attaining what should be the fundamental objectives of economic policy : the return to full employment; the eradication of poverty; and the improvement in the quality of life both at the work place and in general. Registered unemployment in OECD countries has remained at 31 million and is forecast to rise to above 32 million in 1989. Those people with jobs are under more pressure and feel less secure. The gaps between affluent groups and regions and the poorest have begun to widen after many years of slow convergence. The trend towards a society where 2/3rds of the population have remunerative work but 1/3rd are unemployed or are trapped as "working poor" in low income and low quality jobs has dire economic as well as social and political consequences. The poverty and indebtedness of developing countries has increased.

2. These developments are the direct result of government policies, or else the result of the failure of governments to develop an adequate policy response to the changes the world economy is undergoing. In those countries where growth and employment has fared better in the past year this has been the result of changes in government economic policies.

3. A delinking has taken place between financial and productive sectors of OECD economies. The stock market crash showed the frailty and volatility of international financial markets and the irresponsibility of government policies of deregulation of these markets. The fact that equity markets could collapse on such a scale and yet apparently have limited immediate impact on the real economy raises the question of what economic role the financial markets really play. Deregulated financial markets do not represent a desirable model for the rest of the economy to follow.

4. The internationalisation of economies has continued apace, but government policies have remained disturbingly uncoordinated despite the series of communiqués issued over the last three years. European economies have most to gain from coordination, but some of the major governments have indicated their intention to introduce even more restrictive fiscal policies at the very time that they should be compensating for a slow-down in growth and further rises in unemployment. The world trade imbalances have not been substantially reduced. Workers fear that their position is being undermined by international pressures. Against this background OECD prescriptions for structural adjustment have for many workers become synonymous with further job losses and adjustment to deteriorating economic and social conditions.

5. The development of real economic cooperation is a precondition for moving OECD economies back onto a path which would bring down unemployment. Coordinated measures would substantially increase the benefits of actions taken by individual countries; but the absence of coordinated measures is no excuse for inaction. Coordination should not be a matter of making concessions to other countries, but acting because it is in the participating countries' own interest. Over the past three years the repeated statements of intent by Ministerial Council, G 7 and Summit meetings have spoken much of coordination but have not resulted in the necessary changes in the direction of economic policy.

6. Many OECD countries' governments and some employers are either unwilling to engage in genuine dialogue and negotiation with trade unions or else are using the process of social dialogue to shift from them the responsibility for taking action. Managing the structural and technological changes taking place in OECD countries in an economically desirable and socially acceptable way necessitates a genuine initiative to inform, consult and negotiate with trade unions.

#### Programme of Action

7. Government initiatives can be taken both at a national level and internationally. The policies which are urgently required to bring down unemployment include:

- the use of both general economic policy, interest rate reductions and selective investment policies to raise productive, job creating investment and to stimulate regional development in the hardest hit parts of the OECD area. This should be coupled with OECD-wide investment and restructuring programmes for major industrial sectors;
- a major programme of infrastructure investment to respond to needs which exist in areas such as: energy; transport; housing; inner cities; the environment; and telecommunications. This would in addition improve the structure of OECD economies and raise the quality of life;

- the reform of the international monetary system to stabilise currency movements, reduce persistent trade and payments surpluses, hinder speculation, and regulate international financial markets;
- the guarantee of an employment or training place for all young people based on opportunity not compulsion; targeted active employment policies for older workers and the long term unemployed; further reductions in working time and overtime;
- action to remove growing poverty and polarisation in industrialised countries by: - raising minimum incomes; providing increased rights and protections for unprotected groups; strengthening social security systems; and tax policy. This would also raise purchasing power;
- the provisions for partial debt write-offs by private sector banks must be translated into reduced repayments for the debtor countries. The IMF and World Bank must reorientate their development policies towards meeting the needs of the poorest. Industrialised countries must increase their aid flows and concessionary export credit and financing arrangements should be expanded;
- the trend to bilateralism and regionalism of trade policy needs to be countered. The multilateral trading system should be underpinned by a Social Clause in GATT and the harmonisation of working standards between countries of comparable levels of development and strength. Good practice obligations on multinational enterprises have to be enforced.

#### Investment Policies

8. Profits have risen spectacularly since 1980, but the share of fixed investment in GDP has fallen from 19.1% to 16.1% in the United States, from 22.7% to 19.3% in Germany, from 21.9% to 18.8% in France, from 31.6% to 27.7% in Japan, and from 23.5% to 19.6% in Canada. OECD estimates have shown that the growth in the total productivity of production factors has slowed. Governments have failed to assume their responsibility for the process of investment and re-investment. Deregulation and generalised tax cuts, and cuts in corporate taxation, have not induced profits to be invested productively. As a result, almost every use of capital has become more profitable than productive investment and increased profits have fuelled speculative activities. Much deregulation only serves to degrade working conditions in a downward competitive spiral, not to raise investment. Companies are using profits from production for investment in purely financial assets. The focus of their attention has shifted to short-term returns. This damaging trend is being aggravated by the flurry of predatory

take-overs and threat of take-over which diverts management from its proper role in corporate development and undermines the structure of the economy. Much of the fixed investment that has taken place has been devoted to reducing employment, rather than to widening the capital base and to using the stock-pile of technological opportunities to expand production of goods and services to increase employment opportunities.

9. In order to increase productive and job creating investment governments should use general economic policy to expand output, reduce levels of unused capacity, lower interest rates and stabilise exchange rates. In addition, selective investment policies including public investment are needed to channel profits into productive uses. Specific measures, including taxation, should be introduced to control and discourage speculative activity in order to make it less profitable than real investment. Government legislation and regulations on institutional investors should be revised. Systems of investment and depreciation allowances should be applied with greater selectivity. Good-practice environmental norms and health and safety standards should be incorporated into investment projects and policies should be targeted to ensure rational use of energy (where 30% savings in energy use could be made).

10. Sectoral trends of production, investment and employment should be monitored by the OECD and programmes for restructuring and productivity improvements in those industries which face severe crises should be developed so as to allow subsidies to be reorientated towards long-term employment creation. A distinction must be drawn between sectors facing long-term problems of excess capacity and those where capacity needs to be modernised and expanded.

11. Job-creating investment in the hardest-hit regions and areas of OECD countries needs to be raised. Cooperation and coordination between public authorities and the private sector is needed. In several OECD countries cooperation agreements between central, local and regional government and the private sector have shown a practical way how public and private sector cooperation can be improved. In Japan such arrangements are an important element in regional restructuring.

#### Infrastructure Investment

12. Governments must fulfill their responsibilities in matters of investment if they expect companies to invest. They have a particular responsibility for infrastructure investment. This is because the time-scale involved over which infrastructure investment must be judged is often very long. Rates of return are therefore low in the short and medium term and may be misleading. Public investment and infrastructure investment have dropped by a third in some of the major OECD countries over the last fifteen years. For example, in the

early 1970s the main European countries devoted 4.0% of GDP to public investment, this fell to 3.5% in the late 1970's and since 1981 the European average is 2.8%, with 1.9% in the U.K. and 2.6% in Germany both below the average. In Canada, public investment as a share of GDP has fallen from 4% in the early 1970's to an average of only 2.6% since 1981 and by 1987 had dropped even further to 2.4 per cent. This decline runs counter to all efforts to improve the structure of OECD economies and involves considerable costs to the economy and society. The 1987 public works programme in Japan has shown the positive effects which can be achieved and now needs to be complemented by action to raise domestic consumer demand and purchasing power.

13. Infrastructure investment is an essential way of meeting economic, environmental and social objectives. Substantial increases in infrastructure investment are needed in the following areas:

- transport, including major regional links in OECD countries, the integration of road, rail and water transport networks, by-passes for towns and villages to avoid urban congestion;
- energy, including increased investment in new and renewable energy sources, and more rational use of energy through other infrastructure programmes e.g. insulation in buildings;
- the basic telecommunications infrastructure, including investment in the provision of integrated systems networks which would assist expansion of new activities;
- housing, which needs to be linked to land reform in some areas, and which could ease mobility and must be linked to inner city redevelopment programmes;
- the environment, both to encourage the private sector and individuals to reduce pollution and waste through regulations and incentives, and to invest in better sewage, waste disposal and water supply systems.

14. Many of these areas involve joint public and private sector activity, but all require government initiatives in order to stimulate activity. There exists a range of options concerning financing: using fiscal room for manoeuvre that governments have and coordinating action internationally to increase this; in some areas the adoption of user fees for assets created; the provision of guaranteed returns; the creation of earmarked funds with low interest and guaranteed subsidised loans for desirable projects. The goal should be to produce the maximum activity using government finance and policy. The tremendous costs and consequences of delaying vital infrastructure investments must not be overlooked.

15. The domestic job-creation multiplier is substantially higher for public investment than for comparable fiscal measures, producing jobs in the construction industry, the supplying industries, the activities using the assets and more general induced employment gains in the economy as a whole. When coordinated internationally the job-creation gains are that much greater and in turn bring in more tax revenues.

16. The OECD should carry out a study of the needs, financing, supply and effects of a comprehensive programme of infrastructure investment.

#### The international monetary system and financial markets

17. It is both alarming and bizarre that in their recommendations and on the reform of microeconomic policies the OECD appears to be suggesting that the functioning of financial markets should be some set of model to be followed by the real economy. The deregulation and internationalisation of financial markets and the integration of currency markets has produced an untenable situation. For some years progressive delinking has been taking place between the financial and real economies of OECD countries. 95% of international financial transactions are unrelated to trade in goods and services or to productive investment flows. Multinational corporations and banks have become major players in this speculative system. The stock market crash, in which the capital worth of companies dropped by 20% in one week in October 1987, underlines the chaotic functioning of capital markets, their volatility and frailty. It has also shown that the markets no longer believe that governments are facing up to the policy implications of unbalanced growth which has been developing over the last five years. Yet it is governments who have given the markets a pivotal role by considering their behaviour as the criteria by which economic strategies must be judged. The fact that equity markets could collapse on such a scale and yet apparently have limited immediate impact on the real economy raises the question of what economic role financial markets really play.

18. An international system for the regulation and control of financial markets must be developed. The deregulation of financial markets is irresponsible. It disregards the basic fact that the whole economy has to come to the rescue when a major set of financial institutions, let alone the financial system as a whole, is running the risk of bankruptcy. Regulations must ensure a proper functioning of financial markets; namely, to supply the productive economy with capital. The evaluation of the long-term capital wealth of companies must reflect their real investment performance and should not be subject to large, economically unjustified upward or downward movements. A range of measures needs to be examined such as: disclosure requirements on financial holdings and transactions, the reform of rules applied to institutional investors; taxation to restrain speculative gains; the

elimination of tax havens; cooperation between countries to prevent capital flight; and the internationalisation of rules covering competition policy and restrictive business practices.

19. Action by government to reform the international monetary system must go beyond issuing communiques and sporadic intervention in exchange markets. Two measures are particularly urgent:

- the development of a more stable international exchange rate regime, reinforced by the pursuit of compatible economic policies by the major countries. This would in turn facilitate coordination;
- the establishment of an international mechanism whereby countries with persistent surpluses would have the obligation to increase resources to development assistance and adjust their economic policies.

#### Active Employment Policies

20. The employment situation in the OECD area is alarming. In many OECD countries net new employment creation has mostly reflected a growth of precarious, inadequately protected jobs. As was to be expected, low wages, reduced social provision, the reduction of restrictions on firing, and the plethora of temporary and insecure employment contracts have not reduced unemployment. The number of people who are unemployed is still growing, long-term and youth unemployment remains a critical problem, and insufficiently paid or protected part-time work is expanding, especially for women. This situation is having a corrosive effect on the whole of the labourforce. More of the same policies will not solve these problems, let alone assist the development of employment relationships which encourage the skills necessary for productivity growth and economic efficiency.

21. Workers exposed to constant pressures and threats are not an efficient labour force. A climate of confidence in expanded job opportunities at a decent wage and with good working conditions has to be created. The ability to handle technological and structural change in a desirable way requires a framework of programmes and opportunities which provide people with the necessary security and enable them to adjust to new situations. Government measures must: develop information, consultation and negotiation rights for workers' representatives on changes; expand social protection for the hardest-hit sectors of the labourforce; fully integrate part-time workers into mainstream labour legislation and working conditions; invest in education; provide training and re-training opportunities to all; and facilitate the transition of young people from school to active working life.



22. In the OECD area 16% of young people are unemployed, and many of these have never worked in their lives. A comprehensive approach to youth unemployment must integrate education, training and active employment policies. This must cover young adults, as well as teenagers, to form a continuum of policies. Governments have to play a catalytic role with employers and trade unions so that young people are guaranteed an acceptable alternative to unemployment: further education, high quality training, a job, or some acceptable combination of these. Governments have the tool of public sector employment at their disposal. Because the young unemployed are not a homogenous group these measures, although integrated and forming a comprehensive guarantee, must be carefully targeted and applied through a network of individual counselling services. A significant investment is required so that vocational education and training leads to good jobs, instead of being a substitute for employment. Business will have to make greater efforts to provide comprehensive training and re-training if it expects properly qualified and competent employees in the future.

23. The problem of unemployment amongst older workers and people who are unemployed for long periods of time is growing. Long-term unemployment now amounts to between one third and one half of all unemployed in many OECD countries and constitutes a situation of being terminally unemployed, especially for people with many years of work experience. The age-limit for hiring workers has in practice become lower, yet this is not necessarily due to inadequate or inappropriate skills - even though skills do deteriorate during long periods of unemployment. There is discrimination by employers against the long-term unemployed, compounded by the exhaustion of unemployment benefit entitlement and the damaging psychological effects of joblessness. A much more sophisticated policy response is required by governments to solve the problem of long-term unemployment. The public sector should give a high priority to hiring the long-term unemployed for positions which become available. A combination of public and community employment programmes will have to be provided and firms should be encouraged to employ them through subsidy and other schemes. Re-training is appropriate in a number of cases. Government policies can be decisive in removing the discrimination facing the long-term unemployed.

24. Further reductions in working time, including overtime, are essential. Systematic overtime working should be eliminated at the same time that inadequate basic wages, which make overtime working an important source of income for some, are raised. In Japan, reductions in working time to 1800 hours per year and beyond must be accelerated so as to spread the benefits arising from technological change and to improve employment. In Europe, some reductions of working time have been achieved, saving many jobs which otherwise would have been lost during the last few years, and creating new jobs. Changes in working time arrangements must be negotiated so that they are accompanied by suitable safeguards to protect and improve

working conditions and by visible success in creating more employment. Governments should encourage and not hinder negotiations to achieve reduced working time and maximise the positive employment effects.

#### Removing Poverty

25. Governments have presided over an unparalleled increase in poverty and deprivation in many OECD countries. Policies have deliberately favoured those on higher incomes. The growth in hardship has been significantly, although not entirely linked to the growth of unemployment, particularly long-term and recurrent unemployment. In many OECD countries unemployment benefit schemes are of inadequate duration, only compensate workers for a relatively small part of former earnings and cover a limited number of those seeking work.

26. Governments have to remove the underlying causes of poverty. Social policy cannot be based on the pretence that 31 million people registered as unemployed are responding to inadequate "incentives" and that people choose poverty. Action is needed to provide a guaranteed minimum income and improve, not undermine, social security systems. This would ensure the distribution of the benefits of economic growth throughout society and be a major stimulus to growth by raising the purchasing power of those with the greatest needs. In the first place, this could be achieved by strengthening the areas of protection of people on low incomes: improved minimum wage provisions; social benefit systems; pensions; unemployment benefits; improved and extended health care; extended protection for groups of workers not covered by social security, e.g. part-time workers and workers with precarious employment status. Governments should examine the relation between taxation and social security entitlements so as to remove hardship created by the system. The financing of such improvements requires the development of the tax base of OECD countries, and the raising of the level of social security benefits in order to eliminate poverty and deprivation. This is in contrast to some of the "tax reforms" underway in OECD countries which have reduced taxes for well-off groups, leaving the poor worse-off.

#### Debt and development

27. The loss of stock market values following the October 19 crash was greater than the total indebtedness of developing countries, yet the stock losses have been absorbed with little complaint, while proposals for debt write-offs or interest relief are dismissed. It has become accepted wisdom to talk of the need to increase the flow of resources, both public and private, to developing countries, yet in 1986, total resource flows from the OECD to developing countries dropped by 15%. A large number of OECD countries fall way below the UN target for

development aid equivalent to 0.7% of GNP. Reversing this situation is not an altruistic goal but would be in the OECD countries' own interest in order to develop growth and markets.

28. Different groups of developing countries have different priorities and must be handled with different approaches: the Newly Industrialised Countries, the major oil exporters, the middle income indebted countries and the poorest countries. Overall, however, a range of measures are necessary: faster growth in the OECD area; the translation of partial debt write-offs by the banks into lower debt servicing payments by the indebted countries on a case by case basis; debts of the poorest countries should be completely written-off; reduction in interest rates; major increases in official development assistance by all OECD countries, but particularly those with large surpluses; the expansion of concessionary export credits and guarantees; and the establishment of remunerative and stable commodity prices.

29. The International Monetary Fund (IMF) and World Bank are operating as if debt repayment takes priority over development. Real wages and working conditions have been in decline for many years without any fundamental improvement in the debt crisis. Debt servicing payments must be set at realistic levels so as not to jeopardise economic and social progress. These international organisations have a role to play in using partial debt write-offs by banks in such a way as to reduce the payments due from indebted countries. A Special Facility needs to be developed to this end. In many countries, soundly based development requires international competitiveness but this cannot be achieved through suppression of consumption and shifting resources towards purely export orientated industries. The IMF and World Bank should evaluate the social impact of their respective short and long-term strategies, as recommended by the ILO High-Level Meeting on Employment and Structural Adjustment in November 1987, and should re-define them in consultation and discussion with trade unions so as to ensure that working people have a say in their formulation. This is necessary to ensure both efficiency and fairness.

#### The Multilateral Trading and Investment System

30. The GATT Treaty stated that GATT was founded with a view to "raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand". Yet the multilateral trading and investment system is under increasing pressure as it was never intended to cope with unemployment and trade imbalances of current magnitudes. Exchange rate changes and in particular a massive decline in the dollar cannot remove imbalances on this scale. Coordinated economic policy changes are necessary. In addition, one factor behind the pressure could be eased if it were fully recognized in practical terms that the goal of international trade as recognised by GATT must be to increase living standards, not to

reduce them. Governments should ensure that international competitive pressures do not undermine social progress.

31. Within the OECD area trade tensions arise amongst countries of comparable economic development and strength when the benefits of increased productivity are not translated into improvements in living standards. OECD countries should seek to harmonise upwards wages, working time standards, pensions, social security benefits, working conditions, health and safety, and general social provision and living standards.

32. OECD countries must improve access to exports from developing countries and remove discrepancies which exist among themselves in this respect. However, no government should be allowed to violate internationally agreed worker and trade union rights and minimum labour standards in order to capture export markets and to attract foreign investment. The benefits of greater participation in international trade must contribute to the social and economic progress of developing countries' populations. OECD governments should ensure that international support is built up for the inclusion of a Social Clause embodying this in the GATT.

33. The failure to recognize the importance of the social aspects of international trade and to develop practical multilateral responses contributes to the spread of unilateral and bilateral actions and to the tendency to form trading blocs. These trends limit the possibility for smaller or weaker countries to participate fully in world trade. The OECD has a role to play in creating the conditions for a better functioning multilateral system and avoiding the break-up of the world economy into aggressive trade blocs.

34. Opportunities for increased direct foreign investment must go together with more serious application of internationally recognised obligations on multinational enterprises to conduct their affairs in a manner which contributes to the economic and social development of both home and host countries. This is not the case at present. Decisions on company restructuring are being taken with little opportunity for employees to affect the outcome through negotiation and with no right of access to decision-makers for trade unions from different entities. The increasingly international repercussions of investment and takeover decisions, and their competitive impact require a greater commitment from governments to enforce the OECD Guidelines on Multinational Enterprises.