

**“PRODUCTIVE EMPLOYMENT - A FACTOR OF ECONOMIC GROWTH AND  
SOCIAL COHESION”**

**Trade Union Discussion Paper  
G8 Labour and Employment Ministers' Conference**

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**I. OVERVIEW**

1. G8 Labour and Employment Ministers' meeting in Moscow must agree to act on the creation of productive jobs in the G8 and OECD countries as well as on the broader challenges for employment and development posed by the globalisation of markets, investment and trade. Two paramount concerns for workers are widespread job insecurity in industrialised countries, as well as the dearth of decent work in developing countries.

2. Over the past fifteen years with the entry of China, India and Russia into the world economy, the size of global labour force has doubled. Millions of the new entrants work for wages and in conditions inferior to those of workers in OECD countries. Unless appropriate policies to steer globalisation favouring decent work and sustainable development are adopted by governments and the international institutions, globalisation, rather than bidding up living standards for everyone, will contribute to even greater inequality between rich and poor; between capital and labour. More than a billion men and women are unemployed or underemployed while nearly 1.4 billion – almost half of the world's total workforce – struggle to survive below the US \$2 a day poverty line. In G8 countries themselves growth prospects remain unsustainably out of balance, the share of national income has shifted alarmingly from wages to profits and unemployment remains in key countries unacceptably high. Free markets will not rectify these imbalances. Governments need to put in place the right regulations and a framework that helps create jobs and links the creation of decent work in the 'North' with the same objective in the 'South'.

3. The OECD Jobs Strategy Reassessment published in the 2006 OECD Employment Outlook provides one element of an 'evidence-based approach' to assessing employment policy in the industrialised countries that shows that deregulation of labour markets is neither a necessary nor a sufficient policy course for the G8 countries. Different combinations of policies and institutions in OECD countries show that good employment performance can be combined with a high regard for social justice. This message should form a key part of the G8 Ministers' conclusions. The report of the ILO's World Commission on the Social Dimension of Globalisation also pointed to the need to implement social justice and create decent work through rebalancing of globalisation.

4. These challenges were touched on by G8 Labour and Employment Ministers at their December 2003 Conference in Stuttgart. Trade unions welcomed the meeting's conclusion

that the social dimension of globalisation needed to be taken more seriously at the multilateral level. The Chair's conclusions proposed the creation of an inter-institutional dialogue forum consisting of ILO, UNCTAD, WTO, World Bank and IMF. This was in addition to recommending the enforcement of core labour standards, respect for the OECD Guidelines for Multinational Enterprises, the "internationalisation of labour relations" and encouragement of the OECD and ILO to work together on growth and employment. Today, almost three years later, these conclusions are more relevant than ever yet they still have to be acted upon. Thus if G8 Employment Ministers' meetings are to be relevant, their conclusions must be acted on and seen to be an integral part of the delivery on commitments made by G8 leaders in the St Petersburg and Gleneagles summits.

## **II. CREATING MORE AND BETTER JOBS IN G8 COUNTRIES**

5. In many of the G8 countries the current recovery has been accompanied by inadequate employment growth and little growth in real wages. So, high unemployment remains a challenge to be addressed by labour markets and employment policies. In 2005 OECD-wide unemployment was slightly lower than the average for the period 1993 - 2003. However, in 13 out of 30 member countries unemployment in 2005 was higher than the average over the 11 previous years. And for nine of the members unemployment is projected to remain unchanged or to increase even further. It is particularly disappointing that despite strong economic growth in recent years, more than 36 million workers will still be unemployed across the OECD in 2007. Moreover, for 2006 and 2007, the third and fourth consecutive years of recovery, employment growth is predicted to remain modest. According to the predictions, employment growth is expected to remain again far behind economic growth. While the latter is projected to increase on average for the G 7 by 3.0 per cent in 2006 and 2.9 in the coming year, employment growth is expected to increase across the OECD only by 1.3 per cent in 2006 and to fall back to 1.1 per cent in 2007. That will leave millions of workers without a job, among them many younger workers. In six of the G 7 countries the unemployment rate of young adults, aged 15 to 24, has been persistently in double digits. In three of the G 7 countries the unemployment rate of the young was in 2005 particularly high; the rate exceeded 15 %.

### *Combating unemployment: labour market deregulation not the answer*

6. The acceleration of structural reforms over the past decade has not translated sufficiently into lower unemployment. In some countries, job losses during the recession appear to be followed by a jobless recovery. In other countries, in particular the large member countries of the Euro area, a real recovery from the slump in growth has simply not materialised. In a number of specific cases, the lack of economic recovery of growth has been manifest in a collapse in productivity combined with creation of precarious jobs that offer neither security nor long-term prospects for workers and their families. So it is incontestable that high unemployment remains a challenge to be addressed by labour market and employment policies.

7. Lower wages for the less skilled, less generous unemployment benefits, weaker labour unions, greater decentralisation in collective bargaining and less job security are not requirements for good labour-market and employment performance. Quite the contrary, there is compelling evidence that good employment performance has been achieved not primarily by deregulating the labour market and shrinking the welfare state but rather by effectively

coordinating macroeconomic and social policies with the system of collective bargaining, based on social dialogue involving government, trade unions and employer associations. Structural reforms are no simple ‘magic bullet’. For structural reforms to deliver more and better jobs, they need to be focused on those reforms that improve innovation and productivity and they need to be flanked by active and counter-cyclical aggregate demand policies.

*Decent minimum wages need not be an impediment to employment*

8. Those working families in G8 countries relying on minimum wages are struggling to make ends meet. The reality is that many households depend on minimum-wage workers as the main breadwinner. In order to have a decent living, they need not only appropriately set minimum wage levels but also access to affordable goods and services. In the OECD’s analytical work for its Jobs Strategy Reassessment no significant impact of the minimum wage on the aggregate unemployment rate was found. The 2006 issue of the Employment Outlook reports that “no significant direct impact of the level of the minimum wage on unemployment” was identified. In line with that finding, the outgoing chairman of the *UK Low Pay Commission*, Adair Turner, reported recently that “since its introduction in 1999 the minimum wage has been a major success. It has significantly improved the wages of many low earners; it has helped improve the earnings of many low-income families; and it has played a major role in narrowing the gender pay gap. But it has achieved this without significant adverse effects on business or employment creation.”

*Unemployment benefits are not the root cause of unemployment*

9. Civilised levels of unemployment benefits are not a root cause of high unemployment in Europe. Unemployment benefits provide the unemployed with the financial wherewithal to look for another job that matches their skills. OECD research itself has shown that many problems arise from failure of the job-seeker to engage effectively with employment services. Evidence does not point to serious abuse by the unemployed of the system but to misunderstandings of administrative and bureaucratic processes. For sound reasons we question whether the emphasis on reducing benefit replacement rates as advocated will lead to substantial reductions in unemployment rates.

10. The 2006 issue of the OECD Employment Outlook suggests that a reduction of unemployment benefit replacement rates of about 10 percent will reduce the unemployment rate of about 1% for the median OECD country (the replacement rate is the ratio between the unemployment benefit and the previous wage).. However, there are reasons to believe that the effect predicted is exaggerated: not all workers registered as unemployed are affected by benefit systems. Some workers, although eligible do not collect their benefits. Furthermore, many of the young unemployed do not meet the requirements for benefit eligibility. Thus, it appears justified to say that a substantive reduction of replacement rates would have little effect on the youth unemployment rate. Second, caution is appropriate with regard to the causality in the relationship between benefit generosity and unemployment rates. Trends over time show little correspondence between gross replacement rates and unemployment – that applies to both countries deemed to have succeeded and to have failed. Third, a focus on the links between benefits and spells of unemployment ignores the issue of ‘job matching’. There is evidence suggesting that appropriate unemployment benefits help workers find jobs that better match their skills, thus contributing positively to productivity and wages.

*To be effective, policies must contribute to the reduction of precariousness and insecurity*

11. In order to respond to precariousness and insecurity, a positive policy initiative is required, inducing labour market and workplace reforms to respond to employee needs and aspirations and not weakening protections designed to give security and dignity to employees at the workplace. This agenda of positive reform should recognise that any policy to invest in modern social policies and to help workers face globalisation needs to unlock the productive potential in many labour market institutions that protect workers from possible abuse by employers. Job protection and in particular prior notification of redundancy should not be seen as rigidity but as a possibility to prepare retrenched workers to find a productive job elsewhere.

12. There is an urgent need to reform conventional social security systems in order to enable them to respond appropriately to new forms of systemic risk and uncertainty that are induced by economic changes within the emerging new global economy. Social security systems need to be strengthened and even broadened so that workers and citizens remain open to the phenomenon of globalisation despite the volatility and increased insecurity global markets bring with them. This implies securing a broader financial basis for social security which in turn must lead to measures to fight international tax evasion by the factors of production that are the most mobile. In view of the challenges of globalisation, ageing and technological developments, social security systems also need to develop new initiatives such as a right to sabbatical social protection, in particular for older workers and lower skilled workers. Such elements are missing from the policy recommendations.

*Jobs must be available to make activation strategies work*

13. Considerations regarding *activation strategies* are too often seriously biased. They focus predominantly on the supply side of the labour market. The fact that jobs must in the first place be available in order to make *activation strategies* work by bringing unemployed workers and benefit recipients back into work, is not taken into account. The ‘mutual obligations’ approach, pursued in an increasing number of countries, appears to be one-sided. Activation strategies often place more emphasis on obligations.

14. Throughout the developed world there is a strong interest in providing the unemployed, in particular benefit recipients, with incentives to move into employment. At first glance it looks as though welfare-to-work, work-first and other activation policies have been successful. Closer inspection reveals a less encouraging picture. Studies using regression techniques to measure caseload changes failed to separate the effects of welfare and labour market reforms from economic changes affecting the number of benefit recipients as well as of the unemployed. Even the US President’s Council of Economic Advisers, using regression studies, found that both the economy and policy were important factors in reducing caseloads and boosting employment in recent years. In a given country the condition of its economy as well as prevailing policies are factors to be weighed.

15. A serious assessment of welfare-to-work programs must also take into account the fact that they were implemented at a time at which strong growth translated into a job-rich economy offering more jobs and better wages, particularly to the low-skilled, than at any time in previous decades. This in turn allowed governments largely to ignore job availability concerns as they redesigned benefit systems. At the same time it encouraged a growing number of benefit recipients to seek work. However, only a limited number of them have been

able to escape insecure employment and poverty. Policy studies have revealed that programs that emphasize in particular rapid placement are not appropriate to reduce benefit dependency over the long term. According to their findings, it appears that programs that combine training with counselling and placement are far more effective than programs pushing recipients into work without regard to its quality as reflected by wages and skills.

16. 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 calling for adaptive redesign. Besides the fact that active labour market policies will have little effect in periods of low growth and low job creation, 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 a too general analysis. Instead of calling for a termination of allegedly inefficient programmes Ministers should call for an ongoing redesign of labour market programmes. In this respect governments must ensure appropriate financing of active labour market policies.

*Lifelong learning policies cannot be limited to the creation of a well-functioning training market*

17. Policies aiming to strengthen lifelong learning and ensure worker training are welcome. TUAC welcomes in particular the readiness of G 8 governments to facilitate the development of skills jointly with the social partners as outlined in the Cologne Charter and reflected in the conclusions of the G8 in St Petersburg. However, it is important that action follow words. In this respect it is particularly important that policies do explicitly address major barriers preventing workers from undergoing training (lack of time, lack of access, the ongoing discrimination of women and older workers). Moreover, the fact that continuing training tends to reinforce existing skill differences resulting from unequal access to and participation in education in all countries have not sufficiently been taken into account.

*New working time arrangements must be based on joint agreements between workers' representatives and employers*

18. Quality of working life and the work-life balance are of primary importance for workers and their families. Trade unions are therefore increasingly advocating the introduction of new and innovative working time arrangements. However, in order to benefit both employees and employers, the implementation of flexible working time arrangements cannot be left simply to agreements between the individual employee and the employer. The implementation of new working time arrangements must be based upon joint negotiations and agreements between workers' representatives and employers.

*There is no single combination of policies and institutions guaranteeing good labour market performance*

19. Differences between national models of labour market policy have not ceased to exist. Despite a generalised shift away from passive support for the unemployed towards activation and labour force participation, there has been a rather limited convergence of social models. Important issues are the interaction between policies pursued in different domains, the policy mix required for good labour market and employment performance, the design, organisation

and timing of reform policies as well as the role of consensus and coordination respectively the relationship between the government and the social partners.

20. Good labour market performance can be achieved and maintained by different policy packages. However, trade unions have taken the view that this is not appropriately reflected in the key policy recommendations of the restated *OECD Jobs Strategy*. They remain tilted in favour of what are called ‘liberal regimes’, characterised by low levels of welfare benefits and limited taxation to fund these benefits, little employment protection and a limited role for collective agreements. The bias towards ‘liberal regimes’ appears to be based on an argument that public policy is costly in budgetary terms which ignores the social costs of unemployment, inequality and poverty. However, well-targeted and active public policies that steer the economy and the labour market can increase the employment rate and the economy’s productive performance, thereby generating important returns for government revenue. For example, those countries that have chosen such a path can achieve sound public finances. Social policy is a force for productive change. High inequality, poverty and social exclusion do not only have social costs, they are also an unsound basis for the OECD countries to raise competitiveness and productivity in a more globally competitive world economy. By investing in social policies, countries can be in a better position to address global competition by way of new mixes of innovation and productivity instead of trying to compete on the basis of low wages.

*Macroeconomic strategy – a visible hand of demand management is needed*

21. Macroeconomic policy, in particular institutional coordination and the structures of economic policy governance are of key importance for strategies successfully reducing unemployment and promoting employment. Recent country case studies highlight that maintaining strong aggregate demand can be particularly effective if financial and monetary policies are closely coordinated with collective bargaining, based on social dialogue and consensus building. Labour Ministers must act as force for more active growth-orientated economic policy management by governments and central banks.

### **III. ENSURING SECURITY IN OLD AGE**

*Securing decent pensions*

22. The G8 Labour Ministers meeting in London in 2005 discussed the demographic changes facing G8 societies. The international trade union movement has long advocated and been involved in creating retirement income schemes in their national contexts that provide older workers with the option of maintaining their standard of living and avoiding poverty after retiring from paid employment. Approaches have varied from country to country, but three principles have been universal on the union side: firstly, a commitment to the view that beyond a certain age, paid employment should not be necessary to enjoy a decent standard of living; secondly, publicly administered social security should play an important role in achieving this objective thanks to its relative advantage in dealing with issues of pension coverage, portability and indexing as well as its administrative efficiency and relatively stable financial base; and thirdly, that retirement systems should be developed and negotiated in a tripartite framework. Trade unions have also promoted defined benefit pension arrangements primarily because they provide more predictable pensions than do the defined contribution alternatives. Whilst these principles have been applied most extensively in the G8 and OECD

countries in the post-war period they are nevertheless important aspirational principles for trade unions throughout the world. They remain valid even when challenged by some in the current period of demographic change. They are at the basis of trade unions' approach to modernising pension and social security systems so as to safeguard their future.

23. The decline in fertility puts most OECD countries in a situation in which they cannot maintain their level of population through natural reproduction. This clearly changes the economic growth process. It does not however mean that growth in real output and in particular per capita real output should necessarily slow. This has led to a debate about supplementing population growth in OECD countries with increased immigration. However, given the need to facilitate social integration and avoid political backlash in the receiving countries whilst contributing to the development of the sending countries, it is essential that migration is managed as an issue in its own right and not as a response to differences in population growth.

24. The trade union movement anticipates substantial demographic change with important implications that stretch in many directions. But we hold fast to the view that when account is taken of workers' preferences for retirement and likely rates of economic growth in the future, most societies will be able to provide robust pay-as-you-go publicly administered pensions payable at age 65 with wage indexing. We believe that the maintenance of these systems is crucial if large portions of the workforce are to have any real choice about whether to work or retire.

25. Yet the policy process has sometimes lost sight of the fact that older people are "an asset to society", as the G8 Turin Charter 'Towards Active Ageing' put it. There is still a gap between the rhetoric on ageing and policies designed to enhance the health, social inclusion and social security of older citizens. Concerns regarding long-term demographic trends have neither caused a reconsideration of conventional three-stage life cycle approaches comprising education, employment and retirement, nor have they given rise to more integrated approaches based on active partnerships between governments and public authorities, trade unions and employers.

#### *The scope for active ageing*

26. Making it easier for workers over 50 to remain active will increase the sustainability of pension systems, but with the growing proportion of OECD populations in the over 50 age cohort it is also necessary in its own right. Coping with this demographic challenge requires a comprehensive set of policies for improving the employment prospects of all age groups. Particular attention needs to be given to a reversal of the current low activity rates of both women and older workers. This implies changing employment and labour market policies as well as providing a more flexible path to retirement. Reforms must provide positive incentives for current and future wage earners to enter and to remain in the labour force. At the same time they must increase the willingness of employers to hire and to retain older workers. Policies to address the demographic challenge raise important issues and should not be imposed unilaterally. Dialogue between the social partners is a prerequisite for reaching consensus and successfully promoting policies for active ageing.

27. Despite a growing consensus on active ageing since the Turin G8 Labour Ministers' meeting in 2000, policies focus on the adjustment of retirement and pension schemes. Necessary adjustments regarding the interrelation between ageing, labour markets and

employment policies as well as between ageing and employment practices of firms are not taking place quickly enough. Equal opportunities between women and men are also neglected in the ageing debate.

28. Trade unions call on G8 and OECD governments to implement comprehensive national programmes focusing on age management. Such programmes should:

- Correct the misconception that age and productivity are negatively linked;
- Provide evidence that the ability to acquire new skills does not disappear with age;
- Promote the age specific re-design of jobs and work systems;
- Shed light upon the relation between employment strategies of companies and old age dependency ratios;
- Lead firms to take into account the social and external costs of laying off older workers.

#### **IV. EMPLOYMENT IN A GLOBAL CONTEXT**

29. Stagnating or declining population growth in most G8 and OECD countries contrasts with projected expanding populations up to at least 2050 in many other parts of the world, notably South Asia, parts of Sub-Saharan Africa and the Middle East and North Africa. A fundamental redistribution of the world's population is taking place with the bulk of population growth occurring in the poorest countries.

30. At the same time global labour markets are undergoing major changes. The potential world labour force has more than doubled. China has now become a major manufacturing exporter. This has initially affected the low cost sectors of production and the workers employed in them, - the employment impact in parts of the textile, clothing and sports goods sectors has been clear in OECD countries over the past twenty years but the same challenge is now confronting many developing country producers with the ending of the Agreement on Textiles and Clothing at the end of 2004. Technology is increasingly allowing international outsourcing and offshoring in the service sector and with white collar jobs previously thought immune to international relocation. Pressures on employment standards have therefore for the first time had a more generalised effect across different categories of jobs. Moreover, foreign investment now operates in conjunction with trade - workers are confronted by the same firms, either directly as employers or indirectly through supply chains. The need to prevent abuses of fundamental workers' rights resulting from such processes of globalisation makes the case for coordinated and effective international action increasingly urgent. Assuring the human rights of workers must become at least as important an objective of international trade and investment agreements as protecting intellectual property rights or rights of foreign investment. The WTO, World Bank and IMF in conjunction with the ILO and other relevant UN agencies and the OECD need to step up action to enforce workers' rights. Furthermore the WTO should work together with the ILO, OECD, World Bank, IMF and relevant UN agencies, to anticipate the social impact and adjustment costs of trade liberalisation and link this to aid for trade-funding based on additional not diverted resources.

31. The mobility of people constitutes an aspect of the reality of a global economy with social and political consequences. The issues are broader than education, requiring an approach of 'joined-up government', together with trade unions and employer organisations. Education and training policy has an important role to play, together with labour and social policies. In OECD countries special attention must be given to the education of migrant children and young people, and to their prospects of finding decent work. In terms of threats to social cohesion and security in all our communities, the implications of failing to act are dramatic. The brain drain from developing to industrialised countries deprives the former of vital human potential while undermining national efforts in areas such as health and education services. Just as life-long learning has been recognised as a key element of sustainable development in G8/OECD economies, so life-long learning can be an element in tackling the problem of brain drain from developing countries. This is not the only migration issue. The appalling problems of human trafficking between Eastern Europe and the CIS and Western Europe must be confronted and tackled. Sending and receiving countries must cooperate on co-development strategies that remove the economic pressures for involuntary migration, while establishing effective and enforceable legal provisions to prevent violations of human rights, especially for women and children.

32. Respect for fundamental workers' rights also leads to long-term economic gains. Economic development requires institutions that are capable of ensuring social justice, a condition which cannot be dictated solely by market forces. This in turn confirms the importance of democratic institutions, of good governance and dialogue with the whole of civil society and the world of work. Over the past 15 years, particularly in transition economies and in Russia itself, reform processes that have taken place have too often been simplistically based on the idea of 'less state' and on preaching the virtues of a market economy that, we are supposed to believe, is supposed automatically to bring us growth and prosperity. Unless there is parallel work by the institutions, unless trade union rights are respected and unless states and governments are able to regulate, support and direct the forces of the market, what results is the metastasis of inequality and the surge of an informal economy with its destructive impact on institutions, social protection systems, industrial relations and the 'formal' economy itself, as represented by those companies that do strictly adhere to the legal framework and rules.

33 The challenge that this poses is to ensure broadly based, sustainable growth and to implement the conclusions of the ILO's World Commission on the Social Dimension of Globalisation and recommendations of the Stuttgart G8 Conference that preceded them. There is an urgent need to re-link efforts to attain the Millennium Development Goals and to increase the resources of financing for development that is strongly supported by the international trade union movement, with the creation of decent work and workplaces. This must be in the context of halting climate change and achieving a sustainable model of growth and sustainable employment. A further element in supporting development needs to be a moderation in the demands made on developing countries in the WTO manufacturing and services negotiations, so that the Doha Development Agenda becomes a genuine development round that supports the creation of decent employment in both industrialised and developing countries.

34. Trade unions have been in the forefront of the fight against poverty through their campaigns for effective participation in the World Bank's Poverty Reduction Strategy Papers, for the need to increase aid, debt reduction and cancellation, gain market access for products of least developed countries, increase foreign direct investment, enforce respect for human

and trade union rights, campaign for the attainment of MDGs, intensify the fight against HIV/AIDS, and implement conflict resolution. In line with the Global Call to Action against Poverty, of which Global Unions are a central part, governments need to take decisive and concrete action that targets the many faces of poverty.