CREATING DECENT JOBS – RE-REGULATING FINANCIAL MARKETS

Statement of Labour Leaders to the World Economic Forum Annual Meeting 2008

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As the global economy falters workers and their families suffer

1. Economic growth throughout the world is set to take a hit, with recessions a real possibility in some major economies. The stockmarket plunges in recent days underline the fragile state of the global economy, and the failure of policy makers to heed danger signs which have been present for some time. The losers are the workers whose real wages have declined over the last half a decade and the homeowners who are forced to leave their residence, not the bailed-out bankers and financiers who triggered the crisis. As the global economy, primarily in the OECD area, takes a downturn, the people in both developing and developed countries who have lost out on the last decades of globalisation and technological development will see their misfortune manifested in the era's new social structures. Income is distributed ever more unevenly, with income inequality rising sharply in both developed and developing economies, creating new divides between capital and labour as well as between a small elite of top income earners earners and the rest. At the same time, the people behind the new face of capitalism – private equity managers, hedge funds and a rising number of traditional business people – are reintroducing anachronistic forms of corporate governance, where hierarchies are sharpened and worker management cooperation to build sustainable firms and workplaces abandoned. In employee-employer relations, dialogue is being replaced with diktat. And in the distribution of the fruits of joint work, the principle of fair sharing is out, swapped with that of the owners and managers of capital taking it all.

2. If the global economy is to regain its strength, become more sustainable, and be able to overcome the challenges of climate change, cooperative labour relations must be restored. Global labour is committed to its role in this equation. In the following it sets out where it sees the largest need for action and what it proposes as the first collaborative steps and solutions.

From shining to shivering: the state of the global economy

3. The past year became a turning point for the global economy, particularly in the industrialised countries where rising growth rates where substituted by falling ones, where optimism was replaced with pessimism. In 2008 - under assumptions that may well be over-optimistic - global economic growth is predicted to fall to 3.3 percent, down from 3.6 percent in 2007 and 3.9 percent in 2006. Worst are the prospects for the OECD countries that are set to grow by 2.2 percent in 2008 against 2.6 percent in 2007, with particularly the Euro area, the US and Japan severely hit (2.1, 1.9 and 1.8 percent predicted growth in 2008). While developing countries at present are expected to grow by 7.1 percent in 2008, this group of countries will suffer most from further increases in oil and food prices as well as from further turmoil in financial markets, which has already resulted in a decline in banking flows to developing countries. The enduring poverty in many developing countries can be expected to persist, with women among the worst affected.

4. Overall, the global economy is moving from a relatively favourable outlook of high growth combined with low inflation to a disturbing scenario of lower growth, higher inflation, more volatility and a greater vulnerability of national economies to sudden external shocks. The increasing interconnectedness of the global economy has been shown by the transmission of the current financial crisis. Not long ago, a fall-out in the US sub-prime market (as experienced in the spring of 2007) would have been contained in that, relatively small, market. Today though, it quickly spread to other, much larger, financial markets, in effect contaminating the whole world of finance in less than half a year as well as having a contractive effect on global output in almost the same time. The effects remain to be fully felt.

5. At a time when global unemployment is still at historic highs – close to 200 million people during the last couple of years – and robust economic growth fails to translate into significant reductions in unemployment, the shivering global economy is very bad news indeed. In recent months, unemployment has been rising in the US. And in Europe, where the number of unemployed has finally been reduced over the last couple of years, that positive trend may be broken before it has had its real effect, leaving some of the largest economies with close to double digit unemployment rates. Similarly, the proportion of people caught in casual work and toiling in the so-called informal economy in developing countries has risen over the least decade while the absolute number of working poor, those in work but still living on less than US$ 2 a day, has continued to grow. A more difficult economic outlook means that it will be harder to deal with the problems in the world of work and that the attainment of decent work for all will be an even more unreachable aspiration in the near future.

6. Public and private actors have a great responsibility in ensuring a more stable and robust global economy, less vulnerable to shocks and contagion spreading from sub-systems. At the present juncture, policy-makers must ensure that economic growth is restored in the worst affected parts of the world without jeopardising future stability through over-liquidity, which may lead to new market bubbles. In the longer term, the real economy – in which people work, investments are made and products are produced – must again be prioritised and the financial economy effectively regulated. Further, to make the global economy genuinely serve the people of this world, their economic and social priorities, economic growth must generate more decent jobs than it does at present.

Tipping more boats than it lifts: a distorted global economic wave

7. The problems highlighted by the present financial crisis and looming economic fall-out in many parts of the world point to a longer-term trend that has been materialising over the last decades, yet heightening even more in the last decade: the fact that economic growth has become less inclusive, has been less fairly distributed and in effect is less supportive of social institutions and public services.

8. Over the last decades, inequality has risen between the owners of capital and labour as well as between the best paid employees and the rest. In the ‘old’ 15 EU countries that made up the union until May 2004, the share of national income going to wages has fallen from close to 70 percent in the early 1980s to less than 60 percent in 2005. In the US, this share reached 57 percent in 2005, which, except for a brief period in 1997, is the lowest share for labour income since 1966. However, it is not only in the EU

and the US that workers' part of the national income has been declining. As it happens, it has been declining for a much longer time in the developing regions of the world than in the industrial parts. In a majority of poor countries, labour's share in national income has been eroding since 1960 and until today, with a somewhat more quickly decline since 1993. In the bulk of richer countries, the developments were more mixed until 1993, with labour's share rising in several countries, but since then the trend has been crystal clear: the proportion of GDP going to wages and other types of compensation has declined at even faster rates than in the poorer countries.

9. The diminishing share of income going to wage earners in the last decades has gone hand in hand with increased wage inequality. Hence, wage earners have not only had a smaller pie to split between them, they have also done so in more unequal ways. Since the 1980s there has been rising wage inequality between both workers with different skills and among workers with similar skills. Globally, however, wages in high-skilled occupations increased faster than in low-skilled occupations between 1990 and 2000. This was particularly evident in the US, the UK, Latin America and much of Asia. In much of Europe, on the other hand, skill-biased wage inequality was less significant. Wage inequality nevertheless rose across the board. Indeed, of the 73 countries for which figures are available, 53 countries – comprising more than 80% of the world's population – recorded an increase in inequality of income distribution over the last two decades. And women continue to be paid considerably less than men for work of equal value.

10. Income inequality has exploded in many countries, independent of whether they overall have had economic success (as in China and Chile), experienced recessions or sluggish growth (Argentina, Sri Lanka) or undergone economic reforms (Romania, Russia, Ukraine). Even in the most stable economies, mounting wage inequality has been visible, with the ratio of the 10 percent highest paid over the 10 percent lowest paid rising in Australia, Canada, Ireland, Italy, Sweden, the UK and the US (the largest increases – 35 percent and 37 percent respectively – taking place in the two latter countries). Similarly, the share of the top 1 percent in gross income has risen markedly in Canada, the UK and the US from 1990 onwards after having been more or less stable in the preceding 15 years. Indeed, in the US, the cut for this group reached 21.8 percent – its highest level since 1928 – in 2005.

11. The bottom line is that while economic inequality has been on the rise for several decades now, it has increased ever quicker in the new millennium. Globalisation and technological developments coupled with more casual and informal labour practices, as well as a policy mix that has benefited big business rather than the average wage-earner, means that ordinary people all over the world are losing out from economic developments at an unprecedented scale. In the US, for example, workers are facing a possible recession with lower real incomes than when the last recovery ended in 1999. It is the first time since the second world war that this has happened. The global economic wave that has been asserted to 'lift all boats' indeed appears to be tipping more boats than it lifts, leaving hundreds of millions, if not billions, economically shipwrecked.

12. In many parts of the world, mounting inequality has gone hand in hand with a decline in social institutions and public services. This means that ever more people, not least in some of the apparent Asian success stories, are lacking even the most elementary education opportunities, forms of public health, and sanitation let alone any kind of social security net, with a particularly serious effect on women. The combination of growing

inequality with the failure of states and governments to serve their citizens is leading people to turn against the established authorities, elites and political parties as well as the orthodox policy prescriptions and development models. As has been noted by business associations and employers' organisations in the US and the UK, these developments make more and more people reject globalisation as it is currently manifested.

13. To change the present economic model and developments to ensure that growth is both sustainable and benefits all parts of society while leaving no one behind, decent work for all must be made a global goal that is prioritised by all international institutions, working coherently to ensure its realisation. Decent work captures the aspirations of all working women and men, and encompasses the positive correlation between economic development and social justice. As a universal goal for all international institutions, the achievement of its basic components – employment, rights, protection and social dialogue – should guide all global policies in the economic and social sphere, from development and welfare guidelines over macroeconomic and monetary policies to the regulation of trade, investment and finance. As a guiding principle, the achievement of decent work for all should be the object and outset of increased policy coherence between the main actors of global governance. Global labour encourages all participants at this year's Annual Meeting of the World Economic Forum to sign the 'Call to action for Decent Work, Decent Life' that can be found on www.decentwork.org

A bit too much creative destruction: 'financialisation' and private equity

14. The rapid transformation of the private equity industry over the past five years from a niche to a mainstream business is among the most serious challenges faced by workers and their trade unions. The private equity business was originally created to develop capital market efficiencies and increase availability of risk capital in the economy. Trade unions' experience shows that this vision is far away from reality. In particular employment and working conditions in companies under private equity are alarming.

15. Part of the explanation lies in the very business model of private equity (PE). The high debt levels in buy-out deals and the high fees that are captured by PE managers can put workers and companies at risk, creating conditions for precarious employment and inequality. In June 2007 when the first signs of the sub-prime crisis became evident, a British House of Commons inquiry on private equity stated: "however extensive the due diligence conducted, higher levels of leverage are likely to create additional risk, and that this becomes more significant the more important highly-leveraged firms become in the economy". The ITUC had warned about the serious risks posed by private equity for the economy as a whole in its June 2007 report, "Where the house always wins: Private Equity, Hedge Funds and the new Casino Capitalism" (www.ituc-csi.org/IMG/pdf/ITUC_**casino**.EN.pdf).

16. Private equity itself is not the issue – it is the lack of effective regulation. In North America and in parts of Europe unions have had experience over a number of years of dealing with venture capital investors and "distress funds" specialising in turning round companies in difficulty. It is the absence or the weakness of current regulation on PE, rather than PE managers themselves that pose the greatest threat to workers and to sustainable enterprises. Large regulatory gaps were created when the boom in the private equity business as seen in the past decade was not be matched by comparable changes in national regulations and international cooperation. What works for a small business and venture capital does not

necessarily work when applied to medium and large businesses, as is the case today with private equity.

17. Traditional social dialogue and collective bargaining does not function properly under a PE regime precisely because of weak regulation. Under private equity decision making centres are rarely located at the level of portfolio companies, but rather in offshore centres from where many PE firms operate. European legislation on workers' rights to information and consultation and to the continuity of employment conditions during a change of ownership are not guaranteed: odd as it may seem, a private equity takeover does not necessarily materialise into a legal transfer.

18. On corporate governance, PE takeover bids have come under increased scrutiny because of the specific risks for market abuse and conflicts of interest, and the general opacity in which these transactions are taking place. Current national corporate governance frameworks focus on publicly traded companies and generally have far weaker requirements for private equity companies. They are not suitable to address the challenges for the boards of directors to preserve the long-term interests of companies under a private equity regime.

19. There are also serious concerns with the impact of PE in sectors that ensure public service deliveries. The case of PE investments in the nursing home industry in the US is emblematic in this regard. Brutal cost–cutting in PE-owned nursing companies resulted in a fall in the quality of nursing care services and influenced the standards of the sector.

20. After the boom years, the PE Industry and its portfolio companies are now particularly exposed to the fallouts of the current sub-prime financial crisis, as the leveraged buy-out (LBO) financing model has strong similarities with the credit derivative markets. Like the sub-prime market, it is widely assumed that investors – including workers' pension funds – and creditors that invest in LBO transactions do not understand what they are buying, cannot measure appropriately their risk exposure to PE, and accordingly are adopting excessive risk appetite behaviour.

21. Unions and their international organisations have campaigned to elicit a reaction from the hitherto secretive private equity investors on industrial relations issues and to press for more effective government regulation. Efforts by the German government at the 2007 G8 Summit to move to a code on transparency were blocked by the UK and US governments whilst the OECD has remained split on the desirability of regulatory initiatives as has the European Commission. However there have been a significant number of parliamentary initiatives in the industrialised countries and in the European parliament.

22. What is needed is not over-regulation that would impede dynamism, innovation and entrepreneurship, but good regulation that aligns the interests of investors, managers and workers. Four areas have been identified by unions that need to be reviewed to take account of the new private equity model:

- workers' right to collective bargaining and to decent work;
- transparency and accountability of the LBO financing system;
- tax treatment of PE firms and of their portfolio companies;
- corporate governance of unlisted companies and market integrity during takeovers.

23. The importance of the regulatory and tax arbitrage in the PE business is a major obstacle to advancing discussions of PE regulation. These are invariably confronted

with the perceived threat of capital and foreign investment flight overseas. However, the suggestion that is made in some OECD countries that recent controversies around private equity could be solved by self-declaratory initiatives, as is the case in the UK, misses the point about the un-regulated nature of PE. In a context of rising income inequalities and the decreasing share of wages in national income across the OECD, the PE industry benefits from numerous regulatory exemptions and gaps that need to be the subject of public debate and scrutiny.

24. Trade unions have a clear interest in the long-term success of companies, as long as the wealth that is generated is shared equitably and workers get a fair share of that wealth. That is the social contract that binds workers to their company. And it is at risk under private equity.

25. The private equity industry itself can do much to improve its record and in consequence change the environment it operates in to its benefit. The first step – much in line with the ethos of this year's Annual Meeting – is to improve collaboration with the employees in their portfolio companies and their trade union representatives. Concretely, private equity companies should reach agreements with unions on rights to information and consultation during takeovers. Such agreements should not just cover employment relations in companies already owned by private equity firms but ensure the respect of terms and conditions of workers in companies prior to takeovers and in future sell offs. Hence, they should guarantee that workers will face no changes in their terms and conditions without prior collective agreements. Furthermore, they must guarantee workers' right to organise in trade unions will be preserved or respected where such rights do not already exist. Finally, they should ensure that the terms and conditions of employment as well as trade union rights continue to exist when a company is sold from one private equity firm to another, re-listed on the public stock markets or in any other way sold off. Trade unions are ready to engage with the private equity industry as they do with any other employer, but it is still up to the industry to constructively take up this invitation.

Aligning the interests of nature and human beings: a future of green jobs

26. Joint action and cooperation is the only way to ensure that the challenge of climate change is handled adequately. It is estimated that the overall costs of climate change in a 'business as usual' scenario will be equivalent to losing at least 5 percent of world output each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20 percent of world output or more. By contrast, it is estimated that the costs of adequate action against climate change – that is, reducing greenhouse gas emissions to levels that would avert its worst impacts, meaning at least by 85% by the year 2050 – can be limited to around 1 percent of world output each year. The inescapable conclusion is that while action to combat climate will certainly be disruptive of some areas of economic activity and employment, failure to act would have catastrophic consequences for society as a whole, the global economy and the prospects for sustainable jobs in the world.

27. Yet it has to be recognised that workers will be affected by measures to combat climate change through market or regulatory measures including the use of new technologies or the reorganisation of social and economic activities. Interventions to reduce climate change will have particular impact on specific sectors and the workers

within them. This means that there will be a need for programmes to support workers that will be displaced by climate change itself or by mitigation measures, through compensation, retraining, re-employment and re-location, with special emphasis on the most vulnerable workers including women. Trade unions propose the adoption of a range of Just Transition measures to prevent hardships to workers that arise from such transformations. Transition policies should primarily focus on energy-intensive sectors and help to re-skill the workforce through training and education programmes. Special attention should be given to the economic diversification of areas where plants are expected to close, so that the local community does not depend on one workplace. Green Jobs strategies must be developed and implemented at the local, national and global level.

28. Adaptation to climate change offers the opportunity to commit with new paths for economic development; a development that puts people at the centre, and respectful of workers' rights and the environment. Hence, adaptation strategies, by improving societies' and economies' capacity to react and adapt to climate change, will not necessarily have a negative impact on livelihoods or employment. Adaptation measures will vary by sector, but all of them should include provisions for workers whose jobs are at risk from changes in production needed to prepare our society and economy for the impacts of climate change. The question is of course how adaptation can create jobs? In the agriculture and forestry sectors, for example, the expansion of non-farming activities, the establishment of tree nurseries, reforestation projects and the promotion of local technologies are policies that can help to adapt to climate change and create numerous job opportunities. The possibilities for Just Transition and the creation of Green Jobs exist. It will take collaborative innovation to ensure that these possibilities are realised, with a range of public and private actors that the trade union movement stands ready to work with.