Trade Union
Advisory Committee
to the OECD
*Commission
syndicale consultative
auprès de l'OCDE*

NO STRINGS ATTACHED?

A TRADE UNION REVIEW OF OECD FINDINGS ON COVID-19 PUBLIC SUPPORT MEASURES TO PRIVATE BUSINESSES

PARIS, 15 OCTOBER 2020

EXECUTIVE SUMMARY

OECD governments took decisive action in March-April 2020 to maintain their economies afloat and prevent a surge in unemployment as a consequence of the COVID-19 crisis and related lockdown measures. Several employment and social policy instruments, such as short-time work (STW) schemes and strengthened unemployment and social benefits, were swiftly deployed at the onset of the crisis to avoid or at least mitigate the consequences of full or partial business standstills.

Governments also introduced a wide array of direct and indirect support measures for businesses in order to preserve their liquidity either by reducing outflows (e.g. deferral of tax payments) or supporting inflows (guarantee loans, equity injections and recapitalisations). Governments have also facilitated business operations through easing administrative and regulatory measures.

There is consensus among policy-makers that public support measures should have strings attached, i.e. conditions and criteria to which businesses must abide in order to have access to public support measures.

Opinions are less homogenous when it comes to what kind of criteria and conditions, also known as "conditionalities", should apply. For the time being, the OECD recommends three types of conditionality that primarily aim at preserving an even market playfield:

- ➔ Clear sunset clauses to public support, in order to ensure public debt sustainability and the recovery of public and publicly-backed loans;
- ➔ Strong market governance and "competitive neutrality" standards to maintain a level playing field;
- ➔ Observance of internationally recognised instruments of responsible business conduct, including the OECD Guidelines for Multinational Enterprises and the OECD Due Diligence Guidance for Responsible Business Conduct.

With the crisis prolonging, the OECD has been increasingly vocal about the need to re-think crisis management instruments in order to provide "refined and better targeted" support. The underlying key concern is that excessive and overly generous public support would lead to resources misallocation by propping up "unviable firms" and freezing market competition and renewal.

The OECD seems also worried by the impact of public loans and guarantees on the sustainability of corporate debt, which had already reached record levels prior to the COVID-19 crisis. Different forms of credit support and payment deferrals could therefore exacerbate debt levels in the private sector, further increasing systemic instability and the risk of the debt bubble to burst.

In terms of conditionalities, some government support measures have temporary restrictions on economic dismissals for firms receiving employment subsidies. Employment-related conditions, however, are primarily confined to those measures addressed at employment, such as short-time work schemes and temporary lay-offs, but are not necessarily considered for other forms of direct support to business.

In a small minority of cases, support measures have also include restrictions on CEO compensation or dividend payments, either through cash dividends or corporate share buybacks. Trade unions have been unanimous in calling for a suspension of dividend distribution and corporate share buyback practices, especially for firms receiving state aid during the crisis.

At the time of the 2008 financial crisis, public support measures to banks sparked a number of criticisms: financial support evidently represented a mutualisation of losses, whilst gains remained concentrated in the hands of the very few mainly responsible for the burst of the financial crisis in the first place. Similar challenges arise today.

Trade unions have been vocal about the need to ensure a broader fulfilment of social justice principles when it comes to public support to private companies. A clear pre-condition for financial assistance in general, and in particular for the funding of short-term work schemes, should be that companies that access employment support measures guarantee their employees' job places freezing dismissals.

Public support measures to the private sector represent an opportunity to influence investment decisions, shifting towards low-carbon economies and shaping nascent industries in a way that guarantees resilient and sustainable growth.

Finally, effective monitoring instruments to ensure that conditionalities are met play a capital role. Public support to private businesses has to pass the democratic assent of national parliaments and be monitored by public agencies, in order to avoid any misuse of public funds.

Social dialogue has an important role to play in this process. Collective bargaining and trade union representation at firm and sector-wide level must be involved from the programming of support measures that affect workers' wellbeing, to the monitoring of the effective and equitable implementation of designed support measures. More broadly, workers have a right to information and consultation on matters meaningful for employment.

Responsible business conduct along the entire supply chain is essential and should be strengthened at a time of crisis. The OECD is well equipped to lead the way with its Guidelines for Multinational Enterprises, but such path should be extended to encompass abovementioned issues such as levels of shareholder remuneration, or the issue of fair taxation: public support measures should not go to companies which business model relies on tax avoidance, let alone tax evasion. Conditionalities could therefore include the obligation not to be fiscal residence of known tax heavens, even though there is still no common understanding of what constitutes a "tax haven".

READ THE FULL PAPER

TUAC.ORG
@TUACOECD
WORKERSVOICE@OECD