Organisation for Economic Co-operation and Development

C/MIN(2023)23

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30 May 2023

COUNCIL

Meeting of the Council at Ministerial Level, 7-8 June 2023

TUAC Statement to the 2023 OECD Ministerial Council Meeting

Economic Policy for a Just Transition

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JT03520166

Table of Contents

Key demands

- Governments should reconsider the role of monetary policy in tackling a more volatile global economy; coordinated collective bargaining and tri-partite social dialogue should be promoted to enable real wages to recover lost purchasing power.
- Central banks should stop increasing interest rates with immediate effect, as this risks triggering a deep economic recession.
- Governments must ensure strong investment in infrastructure, health and education, to boost economic growth and guarantee social and economic resilience for decades to come.
- The OECD should support governments to design green and digital industrial policy strategies to secure scalable and affordable green technologies, and ensure sizeable and durable employment growth. Expanding industrial capacity will provide relief from supply-chain and output bottlenecks.
- Governments should commit to a Just Transition that addresses distributional impacts of environmental policies and upholds workers’ rights and livelihoods.
- Governments need to address the impact of digitalisation on labour. National legislation must be enforced, clarified and strengthened to prevent the misclassification of workers, and to address bogus self-employment. It is also necessary to extend collective bargaining rights to vulnerable self-employed workers.
- The OECD should shape the rules and policies needed for a human-centred approach to technology. Worker concerns and interests must be properly reflected in the development and implementation of technology, through collective bargaining and information, consultation and participation rights of workers.

- Governments must commit to ILO Core Conventions before free trade and investment agreements are signed. Guaranteed and enforceable workers' rights must become a non-negotiable precondition.
- TUAC expects updates to the OECD Guidelines for Multinational Enterprises[1] adopted at the MCM to lead to improved corporate conduct and better enforcement. The Guidelines should reinforce the right of all workers to join and form trade unions in order to bargain collectively and ensure that human rights due diligence is applied throughout the supply chain.

I. Summary

1. The global economy is chronically feeble. The latest OECD economic forecast marks a moderate global GDP rebound,[2] while the IMF has warned that its five-year global growth forecast will remain around 3%, the lowest in three decades.[3]

2. The headline figures belie the precariousness of the global economic outlook. The war in Ukraine, provoked by the unjustifiable Russian military aggression, keeps uncertainty high. Tensions between the United States and China add uncertainty to the global geopolitical picture, especially in the Indo-Pacific region. Supply-chain bottlenecks, along with opportunistic price setting by business, have sparked price rises not seen in decades.

3. The spike in profits suggests that companies have been raising mark-ups beyond simple input cost adjustment,[4] triggering a profit-price spiral, while wages have not kept up with the cost of living. This has resulted in a fall in real wages in all OECD countries and of the labour share of GDP in a majority of them.

4. Monetary policy tightening, hastily applied by all central banks in a bid to suppress supply-driven inflation, coupled with fiscal policy moderation, risks undermining an already fragile recovery and causing the second global recession in a decade.

5. Climate change poses an existential threat to the planet, while governments' ambitions to keep temperature rises below 1.5°C seem to be slipping away.[5] Governing the green transition will require unprecedented investment in R&D for green technology, ensuring that workers can move into good quality jobs and providing adequate social support to preserve livelihoods and incomes.

6. Digital transformation, including the development of Artificial Intelligence (AI), puts workers under additional stress. Worker rights and social security nets, with democratic and participatory worker voice in managing digitalisation, will prove essential to reap the benefits while minimising risks.

7. Governments need to engage with social partners to design effective policies for sustained, durable and inclusive growth and to navigate the current macrotrends. The erosion in jobs and job quality poses a fundamental challenge that risks undermining the effectiveness of green and digital processes and the resilience of the economy and threatens democratic values.

II. Monetary policy - an inadequate tool to tackle inflation

8. Central banks across the global economy have raised interest rates at the fastest pace in 40 years. Such aggressive monetary tightening is fraught with risks: economically, by inducing a new slowdown and destroying jobs; and politically, by deepening social divides and weakening support for democratic and open societies.

9. Central banks fight inflation by weakening the economy. Disinflation only appears at the end of a process which squeezes aggregate demand and drives up unemployment to the detriment of workers. The impact on jobs and growth is more significant than its impact on inflation. One estimate shows that an increase of 100 base points in interest rates reduces inflation by only 0.3 percentage points, but economic

activity is reduced by a full percentage point.[6] To avoid economic contraction, monetary policy should be handled with care, only to be mobilised when the economic system is fundamentally out of balance and inflation pressure is unrelenting and recurring year after year.

10. Current inflation is not due to an imbalanced economy, where aggregate demand is outpacing supply. It is the result of a series of specific supply shocks caused by bottlenecks in global value chains and sharp fluctuations in food and energy markets, largely a result of the COVID-19 pandemic, the war in Ukraine and climate change.

11. Monetary policy is not the right instrument to tackle today's inflation as it does not address the causes of it. Raising interest rates will not fix failing food crops or resolve other problems, but it increases the cost of the investments needed for us to become less dependent on fossil fuels and insulate us from future energy price shocks.

12. Moreover, inflation will gradually recede once supply-side shocks have come to a halt and economies have digested the price shocks triggered by them. The long time-lags by which monetary policy is felt raise fears that disinflation may be unleashed at the very moment when supply bottlenecks and global events have subsided, and inflation is back under control. This would push the economy back into its bad lowflation equilibrium of the past decade.

13. The consequences of monetary policy fighting the wrong type of inflation are significant. Domestically, central bank actions will discipline wage negotiations and serve to depress wage dynamics by slowing down growth and increasing unemployment. This will increase inequalities, by hitting workers at the bottom of the labour market the most. By adding increased profit margins when hiking sales prices, business has deepened real wage cuts and redistributed income from labour to capital. Tightening monetary policy to stop wages gradually recovering that purchasing power lost to profit-led inflation is neither effective or fair. Central banks should be seen as guardians of stability and growth, not guardians of the interests of capital.

14. The fight against inflation led by central banks from advanced economies is a new form of a 'beggar-thy-neighbour' policy. Higher interest rates attract global financial capital back to developed countries, such as the United States, and push up the exchange value of their currencies. This in turn offloads inflation onto developing countries, as an appreciating currency makes imports cheaper but exports more expensive. Emerging and developing economies are thrust into financial turmoil and another global debt crisis. Imports of essential goods, such as food, become less affordable, further depressing basic living standards and production systems. Heavily indebted economies face an even higher financial burden, since much of their external debt is nominated in an appreciating US dollar. Demand and economic activity, including health and education in emerging and developing economies are put in jeopardy far more than they are in advanced economies. Today, low-income countries are already facing their largest expenditure in servicing foreign debts for a quarter of a century.[7]

15. TUAC calls upon the OECD to urgently review its recommendations on monetary policy. A new package of policy recommendations should include asking governments and central banks to:

- Stop increasing interest rates with immediate effect, before market fragility triggers a new financial crisis that short-circuits credit flows and results in another Great Recession.
- Promote coordinated collective bargaining and tri-partite social dialogue, to enable real wages to recover lost purchasing power.
- Consider the impact of their policies on all stakeholders, by engaging in structural dialogue with trade unions and social partners.

  Start a discussion on the role of monetary policy in tackling a more volatile global economy, including more wide-ranging and more flexible price stability targets.

III. Fiscal and industrial policy for a resilient economy

16. Government intervention amid the COVID-19 crisis was crucial to save lives and the economy. It altered the dominant and negative views about the role of public intervention to sustain the economy, which over-emphasised debt sustainability - a legacy from the Global Financial Crisis.[8] The OECD recommended shifting public expenditure from emergency support to boosting growth in the long term: “Well-designed infrastructure investment projects […] serve the twin objectives of closing employment gaps and achieving climate-related goals”.[9] This echoed the IMF’s new take on the role of the state: “Public investment is a potentially powerful element of any stimulus package. It would create millions of jobs directly in the short term and could also create many additional jobs indirectly and in the longer term.”[10]

17. Yet explicit calls for necessary public expenditure, including investment, have faded away. In March 2023, the OECD Interim Report called for narrow and targeted fiscal support for the most vulnerable households in the face of rampaging food and energy prices, while structural reforms to boost business dynamism and competition did not mention public investment at all.[11] The OECD Council’s Key Issues Paper states that “Better targeting and a timely reduction in overall support would help to ensure fiscal sustainability, preserve incentives to lower energy use and limit additional demand stimulus at a time of high inflation”.[12]

18. Concerns about fiscal sustainability are particularly mistargeted when economies run under their full potential, which is currently the case in most OECD countries. By not adequately recognising the role of fiscal multipliers, policymakers tend to cut public expenditure cyclically. This weakens economic growth (and therefore tax revenues), leading to calls for further spending cuts to achieve fiscal sustainability: a vicious circle of stagnating economic growth with falling public investment and expenditure.[13] The OECD should highlight the central role that governments have to play in driving economic growth. Winding down fiscal policy will magnify the risks of recession, exposing workers even further to the cost-of-living crisis. Triggering a recession is particularly worrying at a time where social inclusion is essential to preserve democratic systems and ensure widespread support for the green and digital agenda.

19. The OECD also fails to consider the gender implications of its monetary and fiscal policy recommendations. Increased interest rates and lower fiscal expenditure will lead to increased unemployment. Women, who are more exposed to lower quality and non-standard jobs, will be particularly affected by cuts in public spending and another economic recession.

20. The rise in policy interest rates further narrows down fiscal space for investment and is not coherent with the Council’s ambition to “ensure larger investment and greater directionality for the […] science, technology and innovation needed to reach net-zero”.[14] Such innovation will require enormous and high-risk investments before becoming profitable. The private sector might not have the capacity, nor the ambition, to pursue such investments at the pace required to contain climate change within a generation. As we saw during the 20th century, broad industrial policy strategies are fundamental to achieving substantial technological breakthroughs, particularly with regard to green technologies, while also guaranteeing sizeable and durable employment growth. Expanding industrial capacity will provide additional relief from supply-chain and output bottlenecks, making economies less vulnerable to inflationary shocks.

21. Building on the experience of COVID-19, governments should permanently expand social safety nets and engage with social partners to design labour market reforms that will promote collective bargaining, employment protection and higher wages. Recent examples from Portugal,[15] Spain[16] and Sweden[17] offer examples of labour reforms shaped by social dialogue that increased employment protection while targeting long-term strategic goals, which included more fiscal spending for social policy, job quality and productivity-enhancing measures.

IV. Leading the Just Transition

22. At the current pace of reduction of greenhouse gas emissions, and with the current level of reduction commitment by governments, it is "*likely that warming will exceed 1.5°C during the 21st century and (…)* [become] *harder to limit warming below 2°C*".[18] This will have grave implications for ecosystems and economies, along with millions of workers' livelihoods, health and safety. Recent analysis by the International Labour Organization (ILO) suggests that global warming alone could result in the loss of 2.2% of total working time by 2030, the equivalent of 80 million full time jobs.[19]

23. Going green will require unprecedented public and private investments in R&D for clean energy and green infrastructure. OECD research demonstrates how uniting environmental and social policies in an integrated agenda can serve to reduce inequalities and enhance social cohesion.[20] A Just Transition that addresses distributional impacts of environmental policies and upholds workers' rights and livelihoods should be implemented, in line with the 2015 ILO Tripartite Guidelines on a Just Transition. All initiatives, including OECD projects such as the International Programme for Action on Climate (IPAC) and the Inclusive Framework on Carbon Mitigation Approaches (IFCMA), must consider direct and indirect social costs of climate policies.

24. Employment needs to shift away from activities that are high-carbon and polluting, or indirectly impacted by the reduction of carbon emissions. OECD Members should invest in social protection and ensure worker consultation on restructuring, to safeguard workers and facilitate the move from brown to green jobs. A successful and widely supported green transition should not rely on the deregulation of job protection, which would result in unstable and lower quality jobs. The 2018 OECD Jobs Strategy on 'Good Jobs for All in a changing world of work' demonstrated the benefits of an adequate level of employment protection and of stable employment relationships, including to foster learning, (re)skilling and innovation in the workplace.[21]

25. As noted by Member States at COP27 in November 2022, "just solutions to the climate crisis must be founded on meaningful and effective social dialogue".[22] OECD work rightfully points to the significant role that collective bargaining,[23] [24] especially at sectoral level, can play in mitigating job restructuring and helping displaced workers get back into the workplace. OECD Members should support social dialogue and collective bargaining institutions to advance the net-zero transition.

26. As major carbon emitters, OECD governments and development partners including the EU, World Bank, and IMF, should support other nations in a Just Transition. Governments must uphold international commitments to reach 0.7% of GNI in development cooperation budgets. OECD Members should further enhance the engagement and accountability of the private sector in green finance, tackle the rise of greenwashing practices and ensure a better alignment of the financial system with sustainable development goals and the principles of a Just Transition.

V. Safeguarding workers' rights and employment in the digital era

27. Technology is transforming the world of work at an increasingly rapid pace. Digital technologies can reduce overall demand for labour and displace workers. Artificial intelligence (AI) and its expanding abilities to perform non-routine cognitive tasks is broadening the scope of workers who may be affected. Reskilling and training programmes have a key role to play in protecting workers, but are only part of the equation, along with social dialogue with trade unions to mitigate job restructuring, active labour market policies, comprehensive social protection coverage, and requalification and job redesign schemes. Strengthened social dialogue and collective bargaining are crucial in ensuring that productivity gains generated by technology are evenly distributed through the creation of quality jobs, and that productivity gains are passed on to wages.

28. AI, and automation more generally, may also lead to deskilling and the increased replaceability of human labour, with implications for working hours and precarious employment. This could drive a ‘gigification’ of jobs and restructuring of workplace relationships, replicating the ethos and issues of the platform economy and embedding them into the labour market more broadly. National labour legislation needs to be enforced, clarified, and strengthened, to prevent the misclassification of workers and to address bogus self-employment. This should include a legal presumption of employment, as has recently been reflected in a handful of legislative initiatives in OECD countries. It is also necessary to extend collective bargaining rights to vulnerable self-employed workers.

29. Robust regulation is needed to safeguard workers’ rights and health and safety in the workplace. Now widespread in many sectors, algorithmic management may lead to a significant expansion of employers’ monitoring and surveillance powers, with digital tools and software collecting vast amounts of data on workers both during and outside working hours. Continuous monitoring, along with the loss of control and intensification of work, caused by work pace and targets being determined by an algorithm, has profound psychosocial risks for workers and could significantly impact mental health.

30. The vast amounts of data collected through digital monitoring and surveillance tools infringes workers’ right to privacy and may also be used to undermine and prevent workers from exercising their right to organise. Strengthened data governance frameworks that specifically address the workplace are needed, providing workers and their representatives with a right to know how their employer is using their data and the ability to exercise control over it, as well as the reciprocal right to collect and use their own data.

31. In March 2023, over 1,000 technology researchers and leaders issued an open letter[25], calling for an immediate six-month moratorium on the training of the most advanced AI systems, warning of the “profound risks” these systems pose “to society and humanity”. The text highlights the need for governments to take swift action to protect democracy and society from the wide-ranging harms already arising from existing applications of AI systems. The OECD has a critical role to shape the rules and policies needed for a human-centred approach to technology, that respects human rights and leads to greater prosperity for all. Worker concerns and interests must be properly reflected in the development and implementation of technology, through the strengthening of collective bargaining and of the information, consultation and participation rights of workers.

VI. Resilient global supply chains and responsible business conduct

32. Policy developments at OECD level, from the BEPS agreement to the update of the OECD Guidelines for Multinational Enterprises, are signs of a broader recognition by governments that globalisation requires fixed standards to deliver for working people. In the absence of adequate regulatory frameworks at the global level, market forces will mostly favour the largest MNEs - those that can shift profits to low tax jurisdictions or externalise segments of their value chains to countries with low wages, poor working conditions and regular violations of labour rights.

33. The discussion on the resilience of global supply chains emerged with COVID-19, when advanced economies discovered their dependence on imported medical equipment. It returned following the Russian invasion of Ukraine, which hit energy and raw material supplies.

34. Modelling by the OECD suggests that current global supply chain fragmentation is more efficient than policy-driven reshoring.[26] Yet the shift in jobs that follows a trade and investment opening process must be accompanied with re-skilling policies to reallocate workers from declining to emerging firms and sectors. Challenges to job protection and job creation go beyond skills. As capital has higher mobility than labour, investors and employers have a stronger incentive to favour delocalisation, lowering the bargaining position of workers and putting additional pressure on social protection and labour standards in developed countries. The bargaining power of investors is increased when trade and investment agreements enhance

foreign investor protection and when measures to boost job mobility lead to permanent degradation of job quality, by lowering job protection.

35. Therefore, any consideration of the distributional impact on workers and policies to protect employment needs to target trade and investment policy together and not as stand-alone items. Labour chapters need enforcement procedures and proportionate sanctions. Investor-state dispute settlements (ISDSs) are not the right instruments for enforcement as grievance mechanisms and remedies must be accessible to all, not just to foreign investors. Labour chapters in trade agreements should benefit from dispute settlement mechanisms between states, ensuring early warning mechanisms, access for victims and sanctions, which could take the form of escalating penalties. The US-Mexico-Canada agreement offers an interesting precedent.

36. Governments must commit to ILO Core Conventions before free trade and investment agreements are signed. Collective bargaining and freedom of association are essential to reach higher wages and better working conditions. Incentives are not enough. Guaranteed and enforceable fundamental workers' rights must be a non-negotiable precondition. Trade and investment agreements must leverage more responsible business conduct by foreign firms. Due diligence processes in the supply chain and the implementation of the OECD Guidelines for Multinational Enterprises should be a prerequisite for companies to benefit from trade and investment.

37. TUAC expects the updates to the OECD Guidelines to lead to tangible results in improved corporate conduct and better enforcement. The Guidelines should reinforce the right of all workers to join and form trade unions to bargain collectively and ensure that human rights due diligence is applied at every step of the supply chain.

38. Realising the full benefits of the Guidelines requires improved implementation by National Contact Points (NCPs). Adhering governments must ensure that NCPs are fully staffed, budgeted, and maintain meaningful stakeholder relations. The proposed updates, however, do not fix the fundamental flaws in NCP procedures. Unless the procedures are amended in ways that improve NCP network coherence and consistency, the burden of effective implementation falls back onto government policymaking.

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