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MR COLES

As you know, on 31 May an international trade delegation is to meet the Prime Minister, in her capacity as Chairman of the London Economic Summit, to present a submission on the views of the international trade union movement on the issues facing the world economy.

2. This is a standard feature of pre-Summit activity; and such delegations have been received by the Chairman of the year before each recent Summit.

3. I attach a copy of the statement to which they will be speaking. There is a good deal in it, particularly as to assumptions and recommendations for action, with which the Prime Minister and most of her colleagues at the London Economic Summit will disagree. But there is a rather special domestic significance about this meeting, which means that both the Treasury and the TUC are extremely anxious that the meeting should be, and be seen to be, a friendly affair and a success.

4. The delegation will be led by Mr Basnett; and both the Treasury and the TUC believe that, if the meeting can be seen to be constructive and friendly, that will strengthen the hands of those in the TUC who want to bring the TUC back into the National Economic Development Council (NEDC) in September. The Chancellor of the Exchequer takes the view that it is in the Government's interest that those views should prevail, and that the TUC should return to the fold.

5. Clearly what is said in the statement issued to the press after this meeting will be important in this connection. The Assistant Secretary General of the TUC has told me that in his presentation Mr Basnett will stress that the objectives of the trade union movement are to create jobs, and to achieve technological and structural change "in a way which enhances rather than degrades the lives of our people". Though there are differences about other objectives, and about the way of achieving these particular objectives, it should be possible to register agreement on these objectives.

6. With this in mind, I have prepared a draft of the sort of press release that might be issued. The TUC have stressed to me that they will wish the press release to contain some account of their views as presented; and Mr Ingham has in mind that he would like to have some on-the-record remarks by the Prime Minister which he could relay in his briefing. I attach a copy of a draft press release herewith.

7. I am sending copies of this minute and the attachments to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to Mr Ingham.

ROBERT ARMSTRONG

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22 May 1984

DRAFT PRESS RELEASE

On 31 May 1984 the Prime Minister, the Rt Hon Mrs Margaret Thatcher FRS MP, received an international delegation of members of the Trade Unions Advisory Committee (TUAC). The delegation, which was led by Mr David Basnett, presented a submission by the TUAC to the London Economic Summit on the main issues facing the international economy. Other members of the delegation were:

2. The Prime Minister, opening the discussion, welcomed the delegation to 10 Downing Street. As Chairman of the London Economic Summit she valued the opportunity of hearing the views of the international trade union movement on the issues facing the world economy, and particularly the industrialised countries. The Summit came at a crucial juncture: the economic recovery foreseen at Williamsburg could not be seen to be under way. What was important now was to establish it as a basis for sustainable growth and to spread its benefits widely not only in the industrialised countries but in the rest of the free world. That would be the best possible basis for creating new and lasting jobs and reducing the levels of unemployment about which she and other Heads of State or Government were no less concerned

than the trade unions. But the achievement of sustainable growth would entail unremitting efforts to bring inflation down still further and to reduce the levels of interest rates, which were too high.

3. Mr Basnett, introducing the TUAC submission, said that it was based on the main objectives of creating jobs, and achieving technological and structural change in a way which enhances rather than degrades people's lives. The trade unions remained deeply concerned about the high levels of unemployment. They agreed that recovery and growth were essential conditions for reducing unemployment; they were not convinced that they were sufficient conditions, or that market forces alone would bring about the fall in unemployment which all desired to see. They emphasised the need for an internationally co-ordinated approach, with particular reference to investment in infrastructure, and the need to avoid cuts in wages or undermining of workers' rights in the name of labour market flexibility. They also stressed the need for co-operation with and support for the developing countries, so that those countries too could enjoy the benefits of economic recovery and growth.

4. Mr Basnett emphasised that the trade unions were the supporters, not the opponents, of change. They recognised that growth, employment and living standards depended on technological and structural change; they stressed that change could be successful only if it was based on understanding and at least some degree of consensus.

5. After other members of the delegation had spoken, the Prime Minister, summing up the discussion, once again thanked the delegation for coming and for the clear expression of their views. The delegation would not be surprised if she said that she would herself part company with them on some aspects of their diagnosis and prescription; but on the main objectives, as defined by Mr Basnett, there was a large measure of agreement. It was necessary to secure and establish the recovery, and to achieve sustainable growth. This was a necessary condition of bringing down levels of unemployment. The Prime Minister very much endorsed what had been said about the importance of technological and structural change in the creation of new jobs, and about the need to increase public understanding and acceptance of technological change: this had been a theme which she herself had stressed at the Versailles and Williamsburg Summits, and would stress again in London.

6. She also endorsed what had been said about the need to spread the benefits of growth to the developing countries. They stood to gain just as much as industrialised countries from economic recovery, since a growth in world trade associated with economic recovery would enable them to increase their exports to the industrialised countries, (in the case of the debtor countries) would help them to meet the cost of servicing the debts which they had incurred. In this connection it was much to be hoped that the benefits of increasing exports would not be eroded by increasing debt service costs as a result of rises in interest rates: another reason why it should be an object of policy in the industrialised countries to create the conditions in which interest rates would fall rather than rise.

7. The Prime Minister concluded the meeting by repeating her thanks to the delegation for their visit, and her assurance that she would convey their views to her colleagues at the London Economic Summit.

TUAC

Statement to the OECD's Ministerial Council and the London Summit

Adopted by the 72nd Plenary Session of TUAC, 26 - 27 April, 1984

INTRODUCTION AND SUMMARY

1. Despite some recent encouraging signs of an upturn, unemployment remains very high throughout the OECD area and continues to grow in many countries. Economic growth - let alone a recovery - is by no means guaranteed, and on present policies, the forecast is for growth slowing down and not spreading. The prospects of structural change have come to mean additional insecurity of present and future employment and income for an ever growing number of people. Such growth as has taken place has not been equitably distributed. Differences between groups in our societies, and between countries, have been growing and this has increased tensions both within and between countries, developed and developing alike.

2. Problems caused by unbalanced growth, continued high unemployment and uncertainties due to structural change are seriously aggravated by the international monetary chaos, world debt problems, and austerity programmes which are imposed on a growing number of countries. Joint deflationary policies have strongly contributed to the recession in the OECD area. When the same kind of policies are prescribed for developing countries, the effect is nothing short of devastating. The oil price shocks and the recession have hit harder most of the developing countries than the OECD area. The least developed countries are in an especially dramatic situation, and many of them need emergency food and other aid simply to assure the survival of their populations.

3. The poverty and the need for real economic and social development of hundreds of millions of people in the developing countries can - and must - be attacked by policies which also provide for accelerated economic and employment growth in the industrialised countries. The world economy has become so interdependent that there will be no durable solution to economic and employment problems in the OECD area unless the issues of underdevelopment and poverty in the whole world are tackled.

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Policies for economic and employment growth and for world development, have to be coordinated as much as possible, in order to maximise their positive effects. The more there is delay and hesitation, the greater is the risk that even the best individual countries' policies yield only little or partial results. Growth which amounts to a recovery has to be the outcome of policies negotiated and implemented jointly by all countries.

4. The world economy will not be pulled out of the recession by simple exhortations or by a "trickling down" of growth from North America. Recovery will not be achieved by passive government policies and interventions which are based on the belief that market forces have to be "liberated" from regulations and institutions which have evolved throughout modern history - and which have contributed to social progress and economic efficiency as well. The governments have the responsibility to provide a framework for economic and employment growth, and the most realistic way to achieve this is through cooperation which involves the trade unions and the business community. The first step should be for the governments to clearly demonstrate their political will to seek solutions together, and use and develop national and international economic policy tools for a robust recovery.

5. Real adaptation and desirable change in the OECD countries will not be promoted through intensified competition, deregulation and privatisation, accompanied by a weakening of social safeguards, or if wage levels are depressed and problems of low pay and poverty continue to spread. It is imperative to avoid a development towards a dual society, with an escalating polarisation between the better off and those who lose out from structural change. Sustainable growth can not be fostered through measures which in reality make it a divisive factor in our societies. The cost of change must not be borne by those who lose from it. Governments have the duty to devise their policies so that the benefits of economic growth and structural change will be shared by all.

6. To cope with structural change, opportunities are needed on a large scale. There is no room for adaptation without a better growth path. Opportunities are not

provided by an incentives-based policy which increase inequalities between groups and individuals. Real adaptation will not be sustainable unless there is active consent and willing participation of all groups in society. The automatic solutions offered up to now to the OECD countries and the world economy have not worked. Falling inflation did not by itself lead into a recovery and more jobs. Cuts in social expenditure have further weakened the social fabric and have not generated private investment. It is equally misleading to assume that now recovery can be conjured by increasing wage and labour market flexibility; this will only create further obstacles to a healthy recovery which would be fair for all.

7. A number of elements are indispensable in order to ensure that there will be economic and employment growth in the OECD area and the whole world economy, in a way which does not lead into an upsurge of inflation. The OECD's Ministerial Council and the London Summit should discuss, and agree upon, a growth strategy based on the following items :

(i) Jointly negotiated and coordinated monetary and fiscal policies, to back up the stuttering growth which has taken place and to ensure it is spread throughout the OECD area and the world economy. Given the international economic linkages, the coordination of measures individual governments take to stimulate growth will serve to maximise the joint positive impact of these measures on economic growth and employment creation.

(ii) An underpinning of an OECD-wide recovery programme by fair and workable policies in each of the countries, which aim at increasing productive and job-generating investment. Such policies must be devised and implemented by governments in consultation and through negotiations with trade unions and the business community.

(iii) A significant increase of both public and private infrastructure investments. There is broad agreement between trade unions and employers on the need for such investments. When they are carried out in an internationally coordinated way, the effect on employment and investment will be optimised without detrimental results on government expenditure and trade balances.

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(iv) government policies to facilitate structural change by creating opportunities and promoting a situation in which collective bargaining between trade unions and employers can have an important constructive role, so that change can take place with a reasonable degree of security of employment and income.

(v) A shortening of working time, through negotiations between trade unions and employers which also aim at making full use of the employment creation potential of this measure. Governments should facilitate and certainly not hinder the climate in which such negotiations are conducted.

(vi) Balanced growth in world trade, which is possible only hand in hand with economic and employment growth in all countries and the expansion of domestic markets. Policies which restrict domestic demand distort trade flows and increase trade conflicts, and make any "roll back" of protectionism more difficult.

(vii) Measures to counteract the international monetary chaos, to increase stability of the exchange rate markets, to reduce real interest rates world wide, and to solve the world debt problem in ways which do not undermine but support the democratic process and strengthen the economic and social potential of indebted nations.

(viii) A review of the conditionality framework of the International Monetary Fund, so that the conditions for countries in difficulty do not mean a halt to growth and development but are constructive and promote the necessary structural adjustments.

(ix) An increase in resources for development, in particular Official Development Assistance, and the adoption of policy measures targeting these resources to attack blatant inequalities and to help to create and strengthen viable economy and society in each recipient country.

8. The decade of recession and mounting uncertainty must be overcome. Change is inevitable, due to technological progress, shifts in world trade patterns, and the growing interdependence between different parts of the world. But this change has to be managed. Mechanisms for building a workable understanding on the management of change have to be developed and used. This requires an atmosphere of mutual respect and confidence within the societies

that a search for solutions to our common problems will be serious and constructive. The key issue for the OECD's Ministerial Council and the London Summit is to create the framework in which people can meet change with reasonable security, and in which the policies pursued both in the OECD area and the developing countries are fair for all.

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I - THE FRAMEWORK FOR ECONOMIC AND EMPLOYMENT GROWTH

1. Growth and unemployment

9. Confidence in the effectiveness and the fairness of the OECD government's policies is seriously eroded by continued high and rising unemployment. Already now one fifth of the young cannot find an entrance into working life. Lower inflation, from 12.8% in 1980 to 5.8% today, did not automatically bring about the increase in economic activity and job-generating investment which it was supposed to. Unemployment in some of the low-inflation countries is among the highest in the OECD area. In the United States, where unemployment has fallen from 10.3% in 1982 to 7.8% now, the upturn did not start in 1982/83 by itself but was brought about by increasing domestic demand and consumption through a relaxation of monetary and fiscal policies. It should by now be clear that the recent North American growth will not be automatically carried over to other OECD countries and the rest of the world by the market mechanism without governments taking measures to spread and sustain it. Instead, there are rapidly growing worries over the sustainability of growth in the United States and the ability of the still high unemployment there to fall any further.

10. Economic growth so far is only a rebound from the deep recession and it is weaker than in previous upswings. Industrial production has only now reached the 1979 level. The prospects, based on present policies, are for a continuation of growth at levels between 2-3% which are too low to even start reducing unemployment. The OECD Conference on Employment Growth in the Context of Structural Change, in February, 1984, did conclude that the principal battle against unemployment must be fought at the macro-economic level. It requested that the subsequent Conference of Finance Ministers would assign a high priority to employment creation, in "ensuring virile but sustainable economic growth". Judging by all accounts, this appeal was not heard by the Finance Ministers, who did not adequately recognize that there must be sufficient domestic demand growth in all OECD countries in order to achieve a better functioning of the economy and tackle structural problems.

11. A basic constraint faced by governments, by the industry, and trade unions, is the instability and volatility of the present economic situation. The insecurity of the international economic environment cannot justify the OECD government's being

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frightened into inaction or confining joint decisions to negative, deflationary measures alone. Those who no longer beleive in the possibility of internationally agreed policies for recovery are fatally attracted by beggar-thy-neighbour policies. In an extremely unstable environment, even the best of national policies, based on broadest possible agreement, will face severe difficulties and may well not succeed. It is distressing that the recession has increased economic nationalism. The economic linkages between OECD countries are often seen only as constraints on national policies; in fact they offer an opportunity for joint action to overcome the recession.

12. A more secure framework will be created if all governments negotiate and adopt coordinated growth and employment policies consisting of diversified measures adapted to the specific problems in each country, and taking advantage of whatever multiplier effects can be obtained by coordination. Expansionary measures, when coordinated and targeted, will build inflation out of the system in a more lasting way than trying to squeeze it out with depressed expectations. The hitherto prevailing hesitant attitude towards spreading economic growth has to be overcome. Growth, albeit still very unbalanced, could not be sustained if monetary and fiscal policies were to be further tightened. Yet this danger is clearly implied wherever the efforts to contain and cut budget deficits concentrate mainly upon cuts in public expenditure. Nor is there evidence that a reduction of public expenditure would induce the market forces to make use of the room for growth they may thus be offered ; they, too, need a clear public policy, a policy which among other things involves public expenditure.

13. The hoped-for automatic ways of achieving employment-generating growth have not worked. Unemployment has not been reduced by simply bringing inflation down, and now the benefits of lower inflation are being eroded by continued recessionary policies. The incentives to growth which have resulted from falling inflation, from a change in the proportion of income consumed or saved, from restocking and from exports to North America cannot be repeated. Investments are still unlikely to lead a

strong recovery because of high real interest rates, uncertain demand prospects and capacity which remains unutilised. Those investments which are taking place are not primarily of a job creating type.

14. More recently, there has been a growing emphasis on reducing unemployment through lower wages, greater wage differentials, cuts in social benefits, and various devices to weaken the bargaining power of trade unions. All this may have marginal effects on the profitability of enterprises, but it will have no effect on their job creation performance. The fortunes of enterprises depend on several other and usually more important elements, such as lower interest rates, reasonably balanced and regular international trade, a more stable monetary system, management expertise, technological innovation, taxation and sufficient levels of domestic demand. The magnitude of the unemployment problem in the OECD countries is such that without vigorous job-creating investments, no amount of tampering with wages/profits shares will provide a solution.

15. Governments have to work out a proper industrial and trade policy framework for economic and employment growth. New jobs will have to be created in activities which offer a sufficiently secure perspective for the future. They must be viable jobs in the sense that they contribute to an improvement of working and living conditions throughout the economy. The context in which they are created has to be one of confidence. The workers must have the confidence which can only be brought about by security of future employment and income. Employers also need a confidence in future prospects, if they are to proceed with the kind of investments which will make their labour force grow and not diminish. Investments have to be promoted by policies whose basic criterion is their employment effect. The way to achieve the necessary confidence is through discussions and negotiations involving all the parties concerned.

2. Infrastructure investments

16. Investment in physical infrastructure is a logical avenue for increasing economic activity and employ-

ment. It is needed to rehabilitate and upgrade existing facilities which have been neglected over a long period of time, and to construct new ones in areas where economic expansion and the development of new industries is to take place. The weakness of infrastructure must not become a constraint on recovery. Measures have to be taken now, as substantial investment programmes demand time for implementation, and in particular as on present policies, growth is foreseen to slacken towards the middle of 1985. In addition to the direct investment and employment advantages, such investment has a substantial multiplier effect due to backward and forward linkages throughout the economy This helps to spread any growth that may be achieved in leading sectors of the economy towards a more broadly-based recovery.

17. This type of investment can be achieved through a combination of public and private expenditure and initiative, but the governments have a pivotal role to play. At a time when the problem for our economies is how to generate productive investments to sustain recovery and create new jobs, there needs to be a framework of policies to bring together all available resources. Public investment in the infrastructure also induces large amounts of private investment. Indeed, no sharp distinction can be drawn between "public" and "private" investment: activities such as construction for new housing, or urban renewal, or the strengthening of transport facilities, typically involve both public and private resources.

18. The financing of these investments does not have to be the problem it is often presented to be. Firstly the increase in employment, both direct and indirect, reduces the expenditures on subsidising unemployment. Secondly, the increased economic activity which such investments stimulate increases government revenues. Thirdly, innovative funding schemes which inject private capital at various stages without impairing public accountability can ensure that there is an adequate rate of return. All of these benefits will be magnified if the expenditure on infrastructure of each country are made as part of a coordinated programme which makes positive use of the interdependence of the OECD

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economies. Studies by the OECD on international economic linkages show that the government budget consequences of such investments will be posi[illegible] within a few years.

19. Trade unions in a number of OECD countries have made, and participated in, studies which look into the type of infrastructure investments and forms of financing which would strengthen the economy and create jobs. For example, a joint study by a high-level group of trade unionists and industry leaders in the United States has recently proposed investments in highways, bridges, urban water supply systems, and wastewater treatment facilities, involving both increased user fees and greater access to capital markets. A study by the Nordic and German trade unions has indicated how a common investment initiative by all OECD countries would have a beneficial international multiplier effect, induce private investment, and reduce unemployment. Proposals from business and industry circles for solving the present crisis also include increased investment in infrastructure such as transport and communications, with the participation of private capital.

20. Infrastructure investments are more than a starter for recovery by stimulating private investment. They also have an important role in improving the efficiency of our economies and their capability to carry out structural change. A well functioning and modern infrastructure enhances the productivity of the economies. Thus, infrastructure investments can and should be targeted to the most pressing constraints. Some areas where investments can be undertaken by governments, and where public policies to stimulate investments can be promoted, are :

- Communications and transport facilities, such as railways, roads, bridges and ports, and the information technology network which is necessary for their functioning ; due to its nature, much of this investment requires intergovernmental cooperation ;

- The renewal of both urban and rural housing and other facilities where they have fallen into decay ; in many of the urban conglomerates in the OECD countries this has to amount to an extensive rehabilitation of inner cities and/or urban areas ;

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- New housing and the construction of educational, health,child and old-age facilities ;

- Waste disposal and treatment, including the possibilities for recycling and the use of waste for energy generation ;

- Investments in a more efficient use of energy and energy conservation (in households, by the community, and by industry) ; and

- Protection of the environment, for instance through sufficiently large-scale investments in equipment and facilities which reduce the threat to the environment.

21.The aim of public policy should also be improved social infrastructural services in a number of vital areas. These include the provision of health care, which is made all the more important by demographic developments. Child care facilities have to be expanded, in particular where a lack of them creates an unwarranted obstacle to the full participation of both parents in economic life. Much investment is needed in education , starting with basic education and continuing with vocational education and training, including adult and recurrent education, to cope with technological developments and structural change. Any comprehensive plan for restoring economic growth must have as an integral part an effective and well financed system of public education. These activities are far from being passive from the viewpoint of a national economy. They improve the ability of the economy to create employment and contribute to its productive potential. These are activities which by nature should be in the public field, and where the private sector is involved in them, it has to accept the necessary discipline (equal access to social services) and to maintain high standards of employment.

3. Negotiating structural change

22.The fear of change can be removed only through bonafide discussions and negotiations with, and within, the existing institutions to ensure that the needed safeguards are in place and that all opportunities are made use of. High and rising unemployment, insecurity over conditions of work and incomes, and the lack of meaningful vocational education and training and retraining facilities are heavy constraints to necessary adaptation ; these constraints cannot be removed without coherent and effective government policies. Negotiations on how to manage structural change have to be carried out at different levels. They call for decisions by governments on industrial, technological, investment, regional and labour market policy. Discussions between governments, trade unions and employers are essential for ensuring that the cost of change will be borne equitably and not only by those who are worst hit by it.

23. Confidence is not increased if the governments' message is that there will be more closures and dislocation of work and less social provision. Redistributive taxation, public programmes and the social wage system are partial compensations within an economy, from the groups which gain from technology and trade-induced change to those who lose out from it ; as such, they should be developed further. The provision of vocational education, training and retraining is an indispensable element ; there is much scope for cooperation between governments, trade unions and the employers in this field. Information to, and consultation with, the workers by enterprises, and particularly multinational enterprises, on future prospects and planned changes allows for a whole series of workable procedures to cope with, or offset, negative effects of restructuring decisions. In the final analysis, the effectiveness of the measures taken either by governments or enterprises to manage the effects of technology and trade depends on vigorous employment growth and the creation of new opportunities. Without this, income support or training arrangements for an unemployed worker do not amount to much more than first aid.

24. Insecurity can be substantially reduced through negotiations between trade unions and management over changes at the workplace. This will help in moving towards "industries of the future" in a manner which is socially desirable. Technology agreements (either directly between trade unions and employers or tripartite framework agreements) are designed to ensure that the process of change at the workplace is achieved in a way which is

recognized to be fair and equitable. This is particulary necessary when changes are fundamental due to a new generation of production and communications technology.

25. The increasing complexity of company structures and management systems diminishes the transparency of ownership and control of enterprises, while decentralisation assisted by new technology leads into geographical dispersion of activities and breaks up existing employment structures. It is increasingly difficult for the employees of a given entity to be aware of the way in which the company as a whole is faring. Industrial relations systems and practices must be such as to ensure that in these circumstances, too, meaningful negotiations on wages and working conditions will cover all workplaces, irrespective of their size and location. There has to be (by agreement, or by legislation if need be) information to, and consultation with, the employees on planned changes in the activities of the enterprises. This is important because restructuring on a world-wide scale can lead into substantial change for reasons which are   directly attributable to the performance of a specific enterprise or the economic position of the host country.

26. Real adaptation to economic change has to take place through negotiations and agreement. It cannot be achieved by a policy based on incentives which increase inequalities between groups and individuals and which do not guarantee a place in society for all. Cuts in social expenditure, shifts towards indirect taxation, and the widening of income differentials weaken the social fabric and make it more difficult for society to adapt to economic change. The recession has undermined the workers' confidence in future access to secure incomes and thus generated fear of change. The governments have up to now offered solutions which have failed one after the other. Disinflation did not produce jobs. Cutting public expenditure has not brought forth private investment. The latest vogue panacea, "wage flexibility", could turn out to be counterproductive to real adaptation.

4. Wage and labour market flexibility

27. Flexibility of wages, and of the labour market more generally, cannot be unilaterally imposed by the governments' policies. The concept of flexibility has to be properly defined before it

can be used as a key element in the OECD's economic strategy. It must not be forgotten that wage levels and differentials have a social basis, and changes in them can only be brought in the collective bargaining process. This process does allow for real adaptation without the negative effects that fragmentation of the labour market produces. This is why it is dangerous to make political assumptions for instance on the basis of a superficial reading of trends in growth and employment creation in different parts of the OECD area.

28. Mass unemployment is by far the biggest obstacle to flexibility, especially regarding occupational mobility and the achievement of structural change. The most efficient way to achieve change is to make sure that opportunities are created and that the necessary adaptations take place through negotiations and a strengthening of confidence between all parties, and without demolishing labour legislation and social protection. In so different economies as the United States, Belgium and Japan, neither declining real wages nor higher profits have engendered employment-creating investment. Increased demand has been crucial to recent growth where it has taken place. Attempts to reduce demand by depressing over-all income levels will not solve the problem of 35 million unemployed in the OECD area; they will make it worse. Every single OECD country already has a low-wage problem, a problem of segmentation of the labour force where women are frequently locked into low-paid and involuntary part-time jobs, and most of them have a new problem of poverty.

29. A downard pressure on wages in all countries, for reasons of competition, will only serve to add to these problems, instead of promoting investment in better equipment. A high-productivity and high-employment society with decent wages will not be achieved by flexibility which entails low-paid and insecure jobs in informal sectors with insufficient social safeguards. Artificially low wages increase pressures on social security and welfare benefits which have to be provided by society. They can also become an unwarranted subsidy to ailing firms, thus prolonging their life well beyond a time when efficient measures for restructuring could and should have been taken. Finally, the remedies proposed for unemployment should in no circumstances promote a situation where groups and individuals compete with each other to have a place in the labour market.

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30.Reducing social protection, in the name of flexibility, only increases the incentive to seek protection against change and not through change. Making redundancies easier without providing for new opportunities will shift costs from the private sector to the whole of society. As economies are confronted by large-scale change, the notion of flexibility must not amount to revising the foundations on which economic growth and social progress in the period following World War II have been built. Social expenditure and the existence of a social wage are by no means charity : they must continue to be a central means of achieving adaptation, transferring compensation from those who gain from change to those who lose from it. If this comprehensive system which is based on universality of access is undermined, the scope for social cohesion could irremediably be damaged. Workers will be prevented from accepting, and involving themselves in, change and adjustment if their standards of living and work are being attacked. Productivity improvements will not be seen as desirable, if they increase unemployment and inequality in the societies.

31.Free collective bargaining is by nature a flexible system which had developed, and also undergone change, in the light of changing economic and social conditions. Governments should once and for all discard the notion that certain forms of wage bargaining are inherently inflationary or hamper job creation. Differences in the ways in which wage levels are set among OECD countries do not correspond to differences in economic performance or the inflation rates. Instead of prescribing interference with collective bargaining structures and practices, governments should join in exploring the possibilities free collective bargaining offers for looking for real ways to bring about and sustain a recovery.

5. Working time

32.A variety of negotiations between trade unions and employers on the shortening of working time are going on in different countries. Growth alone - even with considerably higher rates than now forecast - will not provide work for all those who need it. Consequently, it is imperative to maximise whatever employment potential there is in a negotiated shortening of working time (a 35-hours week, a shorter working year, paid educational leave, reduced life-long working time etc.). Even though the main way of implementing a shortening of working time is through negotiations between trade unions and the employers, governments can and should, both individually and collectively, promote the environment in which this take place and they should certainly not hamper this process. Legislation and administrative measures may be need ed and governments are also directly involved through education, training, pension provision and other social security measures; and they are employers themselves.

33. Reduced working time should not be conceived as only "sharing unemployment". It must be recognised to be a benefit for the employees and a benefit for society as well. It should not be seen as simply a cost to the employer or the society. This "cost" is a social benefit, directly insofar as it increases per hour productivity and employment, and indirectly as it greatly improves the quality of life for people who no longer have to work long hours to earn a decent wage.

34. The reduction of working time must not be separated from the issue of overtime, or else there may be little or no effect an actual working time or employment. A worker should be able to make a living without overtime pay being a necessary supplement to an inadequate basic wage. Special corrective measures will be necessary in those industries and enterprises where strong reliance on overtime pay has become part of the wage pattern. The recession has aggravated the practice of combining compulsory overtime with short-time working. Flexible working time arrangements and overtime should not be methods for employers to keep employment levels down. All working time arrangements should be voluntary and negotiated, and not at the employers' discretion. They should not become a daily feature of working life which increases uncertainty of income.

35. Governments should recognise and deal with the distorting effects of maintaining or increasing differences in labour standards between countries which have achieved a comparable level of economic development and strength. Competitive advantages should

not be forced by a refusal to translate productivity gains into improved working and living conditions. Sustained and targeted measures should be taken to reduce and harmonise working hours, which can differ by as much as 20% between countries of similar economic development and strength, as well as to improve the standards of social security, health and safety, and the working environment between these countries. The governments have increasingly discussed the shortening of working time in the OECD. It is a forum which governments can use for international cooperation on these issues, drawing as appropriate on the specialised knowledge and facilities of the ILO and the GATT.

II - TRADE, MONETARY POLICIES AND DEVELOPMENT

1. Trade policies

36. Trade is not an engine of growth because all countries are pursuing policies which aim at increasing exports and restricting imports. No healthy industrial policy can be built upon this basis either. Successful development of export industries needs an increase in domestic activity and demand, and employment growth. Instead the search for competitive advantage has deteriorated into cut-throat competition between countries for one another's markets. Such competition can occur not only when markets are shrinking but also when they are growing at different, unbalanced rates. In looking for ways to further liberalise international trade, and "roll back" protectionism, governments should realise that policies which restrict domestic demand are themselves protectionist because they distort trade flows and increase trade conflicts.

37. For years now, the benefits of trade have been argued in terms of exports only. The assumption on the beneficial effects of imports have always presupposed the existence of full employment, a situation which does not exist today. Under present conditions, in the absence of balanced economic growth among the trading partners, trade tends to threaten entire sectors of national economies and the jobs in them, as import penetration surges destroy otherwise competitive enterprises. Since the collapse of the Bretton Woods system, trade flows have been excessively affected by erratic exchange rate movements rather than by real comparative advantage, and through the ebb and flow of capital transactions based on interest rate differentials, expectations, uncertainties and sheer speculation. Competitive trade itself is diminishing because countertrade is expanding, and because a significant and growing share of trade takes place within and through multinational enterprises. The volume and direction of intra-firm trade changes without warning, as multinational enterprises carry out their restructuring world-wide.

38. Each country needs a sufficiently diversified and solid economic structure. These structures have already been badly shaken by upheavals which the economy has been undergoing over the past decade. With extraordinarily rapid change it is in danger

of disintegrating further without the actors involved, and the decision makers, even fully realising the gravity of the process, let alone devising consistent policies to counteract it. Overadjustment, or panic adjustment, to temporary pressures should be avoided. Moreover, the survival of a viable economic structure requires the maintenance and modernisation of essential industries and services which may not appear to be internationally competitive. There are also social pressures to maintain industries which no longer are internationally competitive and which should be assisted in returning to competitivity or in restructuring into other product lines. These pressures can be overcome only if there is an economic and industrial policy creating new opportunities for enterprises and workers, and if there are social and employment policies which are designed to cope with trade adjustment needs.

39. Persistent instability of the trading system requires anticipatory and built-in adjustment provisions. Their scope must be broad enough to underpin any liberalisation agreements which would further expose the service sector, where most new jobs have been created, to international competition. There has to be confidence in the governments' will and capacity to manage the effects of trade, both nationally and through international cooperation. The workers' ability to adapt to change also depends on the effectiveness and coverage of social guarantees in different OECD countries, as well as on the timing, speed and methods of industrial restructuring. In particular the various forms of subsidies, which are necessary to cushion the effects of change or to promote change, must be clearly identified and subject to international agreement. Such international agreement is needed on the temporary use of these and other measures, such as voluntary export restraints. If and when trade interventions and subsidies to ailing industries are discontinued, governments must take anticipatory measures so that change is manageable and constructive rather than simply disruptive.

40. The Havana Charter of 1948, which made the link between trade and employment, recognised that low labour standards in one country can erode labour standards in its trading partners. Operative conclusions were not drawn because the projected International Trade Organisation was not established. Trade tensions and unfair trade arise out of

situations where the working population is deprived of trade union rights and, more generally, prevented from receiving its share of the benefits accruing from exports. Social clauses, such as fair labour standards clauses included in some existing commodity arrangements, should be negotiated in trade agreements, and implemented. This will remove the distortions caused by violations of internationally agreed minimum labour standards and will in no way jeopardise the economic progress of countries concerned. On the contrary, it will foster more balanced economic and social development, and it will also ensure that in countries which have achieved higher labour standards, trade adjustment is not forced by exploitation of workers elsewhere.

41. Differences in labour standards among increasingly interdependent countries at a comparable level of economic development and strength distort trade. Large differences in working time, wages, pensions, eligibility and levels of unemployment and other benefits (with consequences for non-wage labour costs) and in the level of social provision exist among the main trading groups within the OECD area. This jeopardises the open trading system in two different but complementary ways; the maintenance of such differnces is a powerful, though conceiled, protectionist device; at the same time, it is a hidden export subsidy because it makes workers assume a disproportionate cost of making exports competitive. The failure to translate past productivity gains into improved labour standards, enhanced social progress and higher living standards boosts unfairly the competitive position of countries. For the sake of stability in the international trading system, growth must rely upon the expansion of both export and domestic demand. A harmonisation which leads into an overall improvement of labour standards among these countries would facilitate the expansion of trade in both directions.

2. International monetary issues

42. The existing international monetary chaos constitutes one of the major obstacles to general, sustained and non-inflationary recovery and orderly structural change. The links between the value of currency and the state of the country's economy

have been largely severed, wild fluctuations have become the general rule of exchange rate behaviour, the influence of interest rates on the direction and scope of international flows of capital has become excessive, and international indebtedness has reached very dangerous proportions. The debt crisis of the past two years is far from being over, especially if monetary policies remain tight, and in the foreseeable future, even some of the major industrial countries may experience difficulties in meeting their international debt service obligations. Due to the declining inflows of money in the developing countries and to their increasing debt service, the net transfer of resources has been reversed : the developing countries are now exporting more capital to the industrial countries than they are receiving from them.

43. This chaos cannot easily be overcome : it has proved difficult even to reach agreement on the minimum objectives of necessary reform. There should at least be general recognition that it is necessary to ensure a greater stability of exchange rates; to keep the interest rates under control; to limit the amount and impact of the so-called hot money, which makes foreign currency speculation more profitable than productive investment; to counteract major overvaluations or undervaluations of single currencies which seriously affect the pattern of international trade; and to prevent speculative devaluations and other methods of exchange rate warfare from being used as strategic weapons of trade warfare. There is a tremendous need for greater stability in the exchange rate markets, and initiatives to broaden monetary stability should be pursued.

44. To cope with the disruptive effects of excessive debts, governments must both individually and collectively go well beyond mere crisis management. Governments and central banks must fully resume their responsibility for surveillance and control of international lending and cooperate among themselves, and with the International Monetary Fund, to ensure the surveillance of the exchange rates and of the conditions in the exchange rate markets. The banks, after having been rescued by the emergency measures adopted by the governments and the IMF to keep the global financial system afloat, must be brought to go beyond the rescheduling process which increases the interest payments of the

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countries in difficulty and merely increases the burden of repayment in the future. Rather than getting increased profits out of the publicly financed rescue measures, banks must accept reasonable losses in the years to come, and thus recycle to the debtor countries part of the profits drawn from irresponsible lending.

45.The conditions attached to IMF assistance should be based in each specific case on a comprehensive analysis or the economy and social realities of the country in difficulty, to define the constructive policy changes which could help to develop viable economic and social structures. The tendency of the IMF to prescribe drastic remedies for balance of payments and budgetary deficits can jeopardise social development and the democratic process, and it must not be allowed to prevail. The developing countries continued access to internatioonal liquidities is clearly inadequate, pushing them to function at levels far below their optimum and to resort to the most expensive forms of private lending. OECD governments cannot afford to deny the International Development Association the resources it needs, in view of the vital role of the World Bank and the IDA in furthering the development process and in shielding the developing countries from the instability and devastating effects of private lending.

46.A major endeavour to restore the function of the international financial institutions can be initiated without waiting until agreement about a comprehensive and more orderly monetary system is reached. Governments and central banks should give greater consideration to the likely or actual effects their domestic monetary policies have on exchange rates. They should cooperate to bring about a coordinated reduction of real interest rates. Governments should also agree to discuss with the IMF, and within it, as well as with and within the OECD, the aspects of their individual economic policy choices (whether international or domestic) which have or can have an adverse impact on other countries. The dividing line between domestic and international economic issues is blurred. For instance, insufficient domestic demand in surplus countries is not a purely internal affair inasmuch as it produces strains on other economies. Actual knowledge and understanding of the interrelationships between balance of payments deficits, budgetary

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policies, interest rates and exchange rates remains inadequate. Therefore, IMF action and the joint action of the member governments has to be based on discussions and agreement rather than on questionable theories.

47. Beyond the initial steps, the discussions on international monetary reform should aim at resolving a number of fundamental problems. These are, in particular, the existing asymmetry in the treatment of deficit and surplus countries, development assistance as part of the international financial system, and the respective roles of the IMF, the World Bank, the Bank for International Settlements and the OECD in handling the balance of payments crises.

48. Although the IMF has the authority to make its assistance to countries in balance of payments deficit conditional on their accepting certain policy recommendations, the Bretton Woods system failed to provide any mechanism whereby countries in persistent surplus would be induced to bring their balance of payments into, or closer to, librium. This paralyzing asymmetry has contributed a great deal to the stringency of the IMF conditionality.

49. Development assistance has arisen only after the adoption of the Bretton Woods agreements, and it has never been fully integrated in the international monetary and financial system. Consequently, its size and modalities are largely exempt from generally accepted and binding rules. Development assistance provided by single donor countries is measured solely on the basis of a uniform target set in terms of the GNP and has so far been treated mainly as a matter of generosity. Additional incentives for governments to ensure the regular flow of resources to developing countries are needed. For example, the external position (balance of payments, balance of trade etc.) of a country exerts a considerable influence on the ability to provide assistance, especially where the surplus is of a persistent nature. Furthermore, development assistance creates export markets for the industrial countries' manufactures (especially investment goods), yet the assistance performance of single donor countries is not being assessed in relation to the balance of their trade in manufactures with developing countries.

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50. It is necessary to review and to redefine the relationships between the World Bank's, the IMF's and the OECD's respective activities and their relative weight in international monetary policies. Short-term measures can be fully effective only if they do not undermine longer term development prospects. Therefore, the World Bank should efficiently participate in devising the policy recommendations to the countries seeking international assistance to overcome their balance of payments difficulties. Since the recommendations go far beyond strictly financial issues, and indeed pertain to the whole range of economic policies, the OECD should have its share of responsibility in their formulation. The policy advice given, and measures introduced, by these institutions have far-reaching economic and social consequences. Therefore, when policies are formulated and implemented there should be a full discussion with trade unions and employers, in order to arrive at workable and socially acceptable measures.

3. Development cooperation

51. Even a full-fledged recovery in the industrialised part of the world will not by itself solve the fundamental problems facing the developing countries, and low growth prospects make their solution immeasurably more difficult. It is futile to claim that economic trends which increase inequalities and imbalances in the OECD area can somehow have a beneficial "trickle-down" effect on the developing countries, if only the market mechanism is set free. Private capital flows go only to some sectors and some countries. They seldom aim at improving the economic and social structure, and more often than not remain insulated within the recipient countries' economies. In the absence of other measures, they are quite likely to increase the inequalities within and between countries. A broad range of essential investments in the developing countries will only take place through official assistance channels. The key issue is the improvement of the position of the developing countries through a development of their socio-economic infrastructure. Self-sustaining development cannot be achieved in countries where the social structure is obsolete and rapidly disintegrating.

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52. The situation of some countries has become so bad that it is imperative for the OECD countries to immediately step up food and other emergency aid. People in a growing number of the least developed countries, especially in Africa, are facing starvation. An immediate increase in basic aid is a concrete matter on which the OECD's Ministerial Council and the London Summit should agree upon. Emergency measures should be followed up by assistance to develop the rural sector, in order to reverse the trend which has made many previously self-sufficient producers into net food importers. This sector must be helped so that it can be revived and properly organised, to decisively improve its productivity.

53. The economic interdependence of today's world has meant unprecedented hardships for the non-oil producing developing countries which have been hard hit by escalation of energy prices to levels which are prohibitive to them, and by the continuation of deflationary policies in the OECD area. Continuing high interest rates and energy prices, and stagnating credits, loans, assistance and direct investment have forced developing countries to restrict their imports and put their development efforts into reverse. Commodity prices, though rising, are still depressed, and the markets for most other exports of these countries remain largely stagnant. Growth in the industrialised countries is indispensable for the future of the developing countries. But the concomitant expansion of markets has to be accompanied by policies which ensure that the benefits will fuel genuine development. In particular, the benefits must be shared by the entire population of the developing countries instead of being reserved to the privileged few who have been faring well throughout the recession while poverty has been growing.

54. There can be no real economic progress on the global scale unless it goes hand in hand with the improvement of the social conditions of the working people everywhere. The poverty of hundreds of millions of people in the developing countries can, and must, be attacked by policies which at the same time help to reduce unemployment in the industrialised world. The long-term economic and employment problems in the industrialised countries can

only be solved if the issues of underdevelopment and poverty in the world are tackled. The interdependence is illustrated for instance by a recent study carried out by the Nordic and German trade unions, showing that the coordinated fulfilment of the United Nations' target of 0.7 per cent of GNP for development assistance would create a considerable number of new jobs in the OECD countries within a few years.

55. Private investment is no substitute to Official Development Assistance. Official Development Assistance must be considerably increased, and much better targeted and monitored than in the past. This assistance is vital for the development of a sound economic structure and a viable society (which includes the existence of wage structures, orderly industrial relations, social security, health and safety regulations, unemployment benefits, pensions schemes and so on). Indeed, an improvement in the economic and social structure of the developing countries will also facilitate private investment flows, and minimise their often disruptive side-effects. Any encouragement of private investment flows to developing countries should go hand in hand with greater compliance with the ILO Declaration on Multinational Enterprises and Social Policy, in which the special responsibilities of these enterprises for employment and job security have been recognised.

56. While the development process requires a much bigger quantity and variety of imports by the developing countries they have been forced, especially by the IMF austerity programmes, to drastically limit them, even imports of goods which are essential for their basic needs and their export industries. This IMF-administered cure has led into a further drop in living standards, higher food prices, power shortages, disruptions in public transport, and the postponement of development projects. Austerity programmes, quickly and rigidly imposed upon a debtorcountries by the IMF, even undermine the necessary structural adjustment, and are thus self-defeating. The suspension of financial flows delays new investments, and when austerity programmes are imposed on many debtor countries at the same time, there is a cumulative downward effect on markets for goods exported by both industrialised and other developing countries.

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Some of the countries facing rigid austerity programmes may have come late to the IMF, but this only demonstrates the gap between long-term development policies and the short-term need to survive. It also illustrates the speed with which the recession in the industrialised countries spread its effects to the developing part of the world and the inadequacy of the existing financial arrangements and institutions. Given that major rescue operations cannot be undertaken unconditionally, the conditions involved must be constructive. They must not put a stop to growth. It is wrong to call for cost-cutting and for the concentration of the limited resources available on one or two export sectors only; considerably more emphasis must be put on agriculture, energy, an efficient public sector, sanitation and health, tax reform, basic and adult education, and vocational education and training. It is evident that there is now a strong case for reviewing the conditionality framework of the IMF.
