

John Sweeney
President, TUAC and President, AFL-CIO

Improving Corporate Governance Standards
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We've all seen the wreckage of companies that have been destroyed by corporate insiders abusing their power to enrich themselves at the expense of their employees, shareholders, taxpayers and even the futures of the companies they led.

And we also know that the serious regulatory and governance problems that surfaced in these scandals are systemic and widespread and have compromised public confidence in Corporate leadership and capital market integrity. We all have a stake in corporate reform to restore corporations and capital markets to their proper social purpose of creating wealth for society. And only if and when we do, will public confidence in these important institutions be restored.

There have been a number of important reforms in the U.S., in individual companies, in exchange listing requirements, in SEC regulations and in the Sarbanes-Oxley Act. The AFL-CIO has been involved in and supported them all. Nevertheless, there is much yet to be done.

And nowhere is reform needed more than in executive compensation. CEO pay in the United States is now at 585 times the pay of workers, and it continues to grow out of all relation to company performance, shareholder returns or even simple decency and fairness.

Workers are the real victims of corporate malfeasance. We pay with our jobs and with the money we rely on to provide retirement security for our families. We estimate a \$35 billion loss in union member pension funds from the collapse of Enron and WorldCom alone. Workers, therefore, must be active advocates for corporate reform.

In the U.S., workers' pre-funded benefit plans control nearly seven trillion dollars. This "Workers Capital" is the largest source of investment funds in the country. Together, workers' capital owns 26 percent of the shares of all publicly traded companies.

The AFL-CIO leads the American labor movement's efforts at corporate reform by coordinating the roles of workers as employees, as shareholders and as citizens. Our reform efforts proceed at three levels: (1) company-by-company reforms pursued through shareholder activism; (2) regulatory reforms in listing requirements and securities regulation; and (3) the formulation of new and higher standards for corporate regulation and law, both in the U.S. and internationally.

For example, in 2003, union sponsored-funds filed almost half of all corporate governance proposals in the U.S., up from 27 percent the year before. So far this year, union-sponsored funds have filed 445 shareholder proposals, nearly 20 percent more than 2002.

In addition to increasing the level of activity, union sponsored funds also received greater levels of shareholder support. Our resolutions last year garnered majority votes in more than 50 companies.

This year, union sponsored funds will continue their efforts to clean up corporate America. Corporate governance reforms are being negotiated with many companies and shareholder resolutions at dozens of companies will call for the separation of the roles of CEO and Chair and "vote no" initiatives against imperial CEOs. To be even more effective, our unions are bargaining

for an increased voice in pension fund governance and we are continuing to train and provide technical and legal support for fund trustees to become active stewards of workers capital.

In the area of regulatory reform, the SEC at our urging approved new listing standards for NYSE and NASDAQ. Companies requiring greater director independence, an issue long supported by union-sponsored fund proposals. The Financial Accounting Standards Board also voted to require stock option expensing in 2005, another union-fund backed initiative.

As the result of a labor movement petition, the SEC voted to require mutual funds to disclose their proxy votes. This change will add further support to union-sponsored funds' efforts at corporate governance reform. Mutual fund giant Vanguard for example is voting against far more directors than in previous years.

Key shareholder fights are already emerging for the 2004 proxy season. Union-sponsored funds will take a lead role in running vote-no campaigns against directors who have failed to protect shareholder interests.

These vote-no campaigns will help shareholders nominate their own directors in the future. In what is certainly among the most significant reforms since Enron, the SEC is about to enact a rule change, initially proposed by our unions, to allow qualified investors, under certain circumstances, nominate candidates for corporate boards on companies' proxies.

Such a reform will alter the conversation between imperial CEOs and shareholders and other stakeholders do much to enhance board independence and help balance power within the corporate boardroom.

On the agenda for 2004, for the first time, union-sponsored funds will seek through shareholder actions at dozens of companies to separate the roles of CEO and chair of the board, increase auditor independence, and limit runaway executive compensation.

In the standard setting area, the AFL-CIO, together with the labor centers for other OECD countries, has participated from the beginning in the formulation of the OECD Principles of Corporate Governance. The OECD Principles are still the only international standard of good corporate governance.

Through the TUAC, we also participate in the recent review of the Principles to bring them up to date and make them relevant to the governance problems that surfaced with such force in the heart of the world's most developed systems of governance.

I want to congratulate Don Johnston for his vision and leadership in establishing the OECD as the leading international authority on corporate governance. While we did not get everything we wanted in the revised Principles, they remain the most important international standard and do represent a very significant improvement from the original Principles.

A unique feature of the OECD Principles is their recognition of the role, which other stakeholders, including employees, play in corporate governance. Though still skeletal, we hope that OECD can help flesh out the important role of stakeholders as they begin to implement the Principles.

Corporations are the dominant economic institution of our time and an essential institution for the creation of the wealth we need to serve the enormous unmet needs of the world's people. To allow them to serve this purpose, however, will require the coordinated efforts of workers, other shareholders and all citizens.