NEED FOR IFIs TO FOLLOW PRO-EMPLOYMENT AND ANTI-INEQUALITY RHETORIC WITH ACTION

Statement by Global Unions[1] to the 2014 Spring Meetings of the IMF and World Bank Washington, 11-13 April 2014

Introduction

1. The slight upward adjustment in economic growth forecasts issued by the IMF and World Bank at the beginning of 2014 due to a modest relaxation of austerity policies in some countries will not have a significant impact on the global jobs deficit. The GDPs of several developed countries, notably in Europe, have not yet recuperated to their level prior to the global crisis of 2008-2009, and employment levels in almost all advanced economies remain well below pre-crisis peaks. Economic and employment growth could actually slow down in many emerging-market and developing economies because of capital outflows and declining commodity prices.

2. The international financial institutions (IFIs) need to follow through on their announced intention to pay greater attention to employment by helping boost aggregate demand in countries with output gaps and ensuring that their financial support maximises decent work creation. The World Bank should use the opportunity of having adopted job creation as one of its central strategic objectives by applying the recommendation of the *World Development Report 2013: Jobs* to submit all Bank-financed activities to employment assessments. It should also follow the example of most other multilateral lenders by adopting a comprehensive and fully enforceable labour standards safeguard.

3. The IFIs must take steps to ensure that their concern with growing inequality is not counteracted by their own lending programmes. The IMF's undermining of labour standards and collective bargaining institutions in several European countries, for example, has already had important impacts on income distribution that are likely to intensify in the future. A review and major changes in the Fund's labour market policies are urgently called for. As well, the IMF should ensure that its conditionality and advice on fiscal policy contribute to reducing inequality. The World Bank should also take steps to develop an approach to labour market issues and social protection that is consistent with its expressed concerns about inequality.

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 176 million members in 161 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, IFJ, IndustriALL, ITF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

Persistent jobs deficit

4. Updated economic global growth forecasts issued by both the World Bank and IMF in early 2014 struck a more optimistic note than at any time since 2011, when ill-advised austerity policies led to a renewed global slowdown and, in the case of the euro area, the second phase of its double-tip recession. In January 2014, the World Bank's *Global Economic Prospects* announced that the global economy was finally at a "turning point" from the 2009 recession. The IMF's update of its *World Economic Outlook*, issued a week later, included the first slight upward revision of its growth forecast following six successive quarterly downward revisions.

5. Both IFIs attributed the upward revision of their growth predictions to decisions taken in advanced economies to ease the "drag from fiscal consolidation", that is to delay the implementation of unrealistic deficit-reduction targets. This has been most evident in the euro zone with the postponement of fiscal consolidation goals adopted by the European Commission that is expected to result in positive GPD growth in 2014 for the first time since 2011. Similar easing of fiscal consolidation was agreed by the Commission and its "Troika" partners in the crisis countries, the IMF and European Central Bank, after the Fund acknowledged having used fiscal multipliers that underestimated the negative impact of austerity policies. However measures to repair the grave damages caused by the erroneous policies have not been implemented.

6. Even though the decision to slightly ease recessionary fiscal policies was welcome, the International Labour Organization's latest *Global Employment Trends* report shows that there will be no improvement in the global employment deficit if current trends continue. In many advanced economies, most acutely so in the euro zone crisis countries, the austerity policies of recent years continue to weigh heavily on aggregate demand and affordable loans are not available to finance job-creating investments by small and medium enterprises and large consumer purchases.

7. Aggregate demand is being further compressed by efforts to reduce labour costs in these and other countries. The actions have involved legislative measures to decrease minimum labour standards and reduce collective bargaining coverage. In many emerging-market economies, capital outflows and rapidly fluctuating currencies are creating instability and slowing job-creating growth. In developing countries, several of which are affected by falling commodity prices, informal employment remains widespread. About 840 million workers live, with their families, on less than US$2 a day according to the ILO.

8. High unemployment and underemployment, declining wages or the failure of wages to keep up with productivity growth explain labour's declining share in national income in most economies, both developing and advanced. This phenomenon, which has been accentuated by declining progressivity of taxes and reduced social spending in many countries, explains the growth in income inequality over the past decade in all but a limited number of countries.

9. The IMF and World Bank, along with other international bodies, have expressed concern about growing inequality in speeches by top management. Both institutions have devoted research to analyse its implications. Reports issued by both IFIs have concluded that increased inequality of income and wealth are sources of instability and are harmful to sustainable growth.

Actions must follow words

10. However, both IFIs have yet to follow up on an operational level their increased rhetorical attention to the negative consequences of inequality and the need to prioritize job creation. In the case of the World Bank, some steps have been announced but not thus far implemented. The new *World Bank Group Strategy* states that one of its two central goals will be to "foster income growth for the bottom 40 per cent", and the Bank has announced the creation of good jobs as one of five cross-cutting themes to guide its action.

11. It remains to be seen what will be the specific structure and mandate associated with the World Bank's new job-creation priority and how it will be implemented in Bank-financed activities. The *World Development Report 2013: Jobs* (WDR 2013) recommended that all World Bank programmes and projects should be assessed on their employment impact prior to execution, but the Bank has not yet indicated whether it will adopt this practice.

12. The World Bank has also not stated how it intends to implement the recommendations of the *Independent Panel Review of the Doing Business Report (DBR),* issued in June 2013, other than changing the department within the Bank where the report is produced. The Independent Panel pointed out that the practice of the DBR labour indicator, until it was suspended in 2009, to give the best scores to countries with the lowest level of labour regulations was inconsistent with the findings and recommendations of the WDR 2013.

13. The Independent Panel recommended that the Bank permanently delete the DBR labour indicator and develop a more balanced labour market policy outside of the *Doing Business* project. The Panel also recommended the elimination of the DBR's tax rate indicator, which gave its best scores to countries requiring the lowest tax and social contributions from business, including for pensions and workers' health and safety. Such guidance from one of the Bank's "flagship" publications is incompatible with the Bank's claim to prioritize good jobs and support reduced inequality.

14. The World Bank should also adopt a comprehensive labour and occupational health and safety safeguard as part of the ongoing review and update of its social and environmental safeguards policy, and apply it to all Bank lending. Since the African Development Bank's (AfDB) adoption of *Operational Safeguard 5: Labour Conditions, Health and Safety* in December 2013, the World Bank has fallen into the minority of large multilateral development banks that do not require borrowers to comply with core labour standards or occupational health and safety standards.

15. Following the example of three other major multilateral lenders, the World Bank should require that Bank-financed activities are in compliance with core labour standards and occupational health and safety conditions. As with the requirements of these other institutions, the World Bank's borrowers should also provide information to workers on their conditions of employment, establish retrenchment procedures and grievance mechanisms, and apply supply chain standards.[2]

IMF's programmes contradict rhetorical concern about jobs, inequality

16. The IMF, which has produced several reports on the theme of *Jobs and Growth* and on the negative consequences of income inequality, has not shown the same degree of attention to unemployment and inequality in its lending programmes and country-level policy advice. Its support for strict austerity programmes pushed unemployment into double-digit levels in several European countries and to over a quarter of the workforce in two of them, Greece and Spain.

17. Concerning labour conditions, the IMF's advice and loan conditionality have ranged from reducing or freezing minimum wages, relaxing dismissal procedures, reducing severance pay, and weakening collective bargaining arrangements. In contrast to rhetoric about "protecting workers, not jobs", measures to limit and reduce benefits for the unemployed have taken place simultaneously with changes making it easier and cheaper to dismiss workers.

18. Legislative changes promoted by the IMF, sometimes jointly with its Troika partners and other times alone, have considerably weakened collective bargaining institutions in several European countries. The Fund's *Jobs and Growth* reports have expressed support for coordinated collective bargaining arrangements, including on the national level and on the sector level when there are a large number of small firms. But in reality, the Fund has worked systematically to dismantle, weaken or render inoperable collective bargaining arrangements on the national or sector level in the countries where it has influence. Especially in countries with limited institutional structures for firm-level bargaining, this has resulted in a sharp decline of collective bargaining coverage. For example, Portugal experienced an 85 per cent drop in coverage over a four-year period.

19. The rapid decline of collective bargaining coverage in several European countries will have a profound impact on income distribution in those countries, as labour's share of national income falls further due to the diminished bargaining power of workers. The weakening of workers' voice due to the diminished size and clout of their organizations could also have the important effect of further eroding redistributive fiscal policies, since

[2] In addition to the AfDB, the European Bank for Reconstruction and Development (EBRD) has a comprehensive Performance Requirement on labour and working conditions, the International Finance Corporation (IFC) has a Performance Standard on labour and working conditions and the Asian Development Bank has an Occupational Health and Safety Safeguard. The AfDB, EBRD and IFC standards require borrowers to comply with the core labour standards, which are internationally-agreed fundamental human rights for all workers irrespective of countries' level of development that are defined by ILO conventions covering freedom of association and right to collective bargaining, elimination of discrimination in respect of employment and occupation, elimination of forced or compulsory labour, and effective abolition of child labour.

the labour movement has been an instrumental force in promoting progressive tax systems and social programmes that have benefitted low-income people.

20. There seems to be little rationale for an institution that expresses growing concern about increased income and wealth inequality to be promoting measures that weaken collective bargaining and labour's voice in society. The IMF needs to go beyond demonstrating its worries about inequality on a theoretical level, undertake a thorough examination of how its own programmes and country-level policy advice are contributing to inequality, and adjust them accordingly.

Global Unions' recommendations

Measures to support economic recovery

21. The IMF and World Bank should

- Promote, through their policy advice and financial assistance, targeted action to support aggregate demand and employment in countries facing serious output and employment gaps or growth slowdowns;

- Oppose austerity measures and corresponding cuts in public spending in areas that provide social support, facilitate productive economic activity and provide the basis for functioning stable government services, and support stabilizing public finances through greater tax revenues from higher incomes;

- Contribute to investments in infrastructure, education and quality public services including in the care economy to improve long-term productive potential, and support the transition to a low-carbon economy.

Measures for creating decent work and reducing inequality

22. The IMF and World Bank should

- Support active labour market programmes and schemes to promote job retention and job sharing until a recovery in employment growth is assured, as well as specific initiatives to create jobs for young people;

- End the promotion of labour market deregulation and, instead, help to reverse the rise in income inequality by supporting strengthened collective bargaining and robust minimum wages as part of a coherent set of labour market policies for more inclusive growth;

- Ensure that women benefit from these policy actions to avoid a further deterioration of gender gaps in employment and income levels;

- Assess planned IFI-financed activities on their employment impact, and ensure that they contribute to creation of decent work, notably through the adoption of a World Bank labour standards safeguard;

- Help countries restore or establish fiscal policies that reduce inequality through more progressive tax regimes and increased coverage of social protection programmes;

- Develop action plans to support the implementation of a global social protection floor as developed by the ILO, endorsed by the UN and agreed at G20 meetings.

Measures for effective financial regulation and taxation

23. The IMF and World Bank should

- Help improve the provision of affordable finance to small and medium-size enterprises, facilitate their insertion into global value chains, and ensure that they can provide decent work to their employees;

- Support fulfilment of commitments made by the G20 and Financial Stability Board to end “too-big-to-fail” groups by shielding retail commercial banking activities from volatile investment banking and market trading, regulate over-the-counter derivatives trading and shadow banking, and implement resolution frameworks;

- Promote stronger actions to counter the erosion of tax bases and achieve reform of taxation systems in order to move towards broader-based and more progressive taxes and to shift taxation from employment to environmentally damaging and non-productive activities;

- Support stronger measures to ensure that revenue is not lost through tax havens by requiring automatic exchange of information and action to stop base erosion and profit shifting by multinational enterprises;

- Support the introduction and implementation of financial transactions taxes (FTTs) to prevent speculative behaviour and raise new sources of finance, and ban high-frequency trading.

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