Renewed financial turbulence and global economic slowdown demand major policy shifts by the IFIs

Statement by Global Unions[1] to the 2008 Spring Meetings of the World Bank and International Monetary Fund Washington, 12-13 April 2008

Introduction

1. Financial turbulence and economic uncertainty have increased dramatically over the past year, especially after the rapid tightening of global credit markets in mid-2007 that started after the collapse of the sub-prime mortgage sector in the United States. While some analysts initially predicted that the financial sector's difficulties would be a paper crisis that would have no important impact on the real economy, it is clear, as the most recent forecasts of the International Monetary Fund (IMF) confirm, that the world economy is engaged in a global slowdown. In its 2008 *Global Employment Trends* publication, issued in January, the International Labour Organization (ILO) predicts that global unemployment could increase by 5 million persons in 2008 and warns that vulnerable workers, who are concentrated in developing regions, are particularly at risk.

2. Even though the most immediate manifestations of the economic downturn are in the advanced economies, the ILO foresees that the impact of the slowdown will be particularly serious in Africa, where 80 per cent of workers already live below the $2 per day threshold; in South Asia, which is the region with the highest share of vulnerable employment; and Latin America, which has seen a considerable rise of the proportion of workers engaged in informal work over the past decade. A period of substantially reduced economic growth accompanied by sharply higher food and energy prices worldwide will accentuate the increased income inequality that has characterized global economic development since 1980. In its October 2007 *World Economic Outlook*, the IMF observed that inequality has risen in five of seven world regions in the past two decades, and that this contrasts with evidence of a general decline in inequality during much of the first eighty years of the twentieth century.

3. The global credit squeeze and the current slowdown can largely be attributed to failures on the part of regulatory authorities. The first failure was in the United States, where the government failed to adopt adequate regulations and to act to control the predatory practices of the sub-prime mortgage industry, which preyed on the most vulnerable borrowers. The refusal to regulate these practices was done mainly at the behest of large private financial institutions that were eager to reap profits by buying up, bundling and reselling these mortgages as prime securities. The second failure was on the part of financial authorities throughout the world, who neglected to demand

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 168 million members in 155 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, ICEM, IFJ, IMF, ITF, ITGLWF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

transparency and set proper standards for the new financial instruments that acquired many of these securities and are spreading the effects of their bad investments throughout the global economy.

4. Global Unions have proposed that the IMF should take the lead in developing new international regulatory frameworks in order to control the largely unregulated activities that have set off a new global financial crisis. Both the IMF and the World Bank should act to assist countries that seek to protect their populations, and particularly the most vulnerable sectors, against its impact. This entails supporting countries that seek to control destabilizing capital flows; that require emergency financial assistance to overcome balance of payments problems; that strive to improve social protection to offset the impact of job loss and higher food and energy prices; or that try to extend workplace protection and labour rights to unprotected workers. The increasingly uncertain prospects for the world economy make it all the more important for the Washington-based international financial institutions (IFIs) to shift their priorities away from promoting harmful deregulatory policies and towards supporting employment creation and decent work.

Global slowdown requires comprehensive policy response by the IMF

5. Global Unions were encouraged by the IMF managing director's statements, initially expressed in the context of a G7 finance ministers meeting in January, in support of a coordinated fiscal stimulus response to the current global economic slowdown. Although the crisis began in the financial sector of the United States, the subsequent tightening of credit markets is having a substantial impact on the real economy throughout the world. Despite the industrialized-country origin of the current downturn, developing regions will inevitably suffer if measures are not taken quickly to counteract the impact of the worsening global economic climate.

6. Many analysts have noted that the IMF chief's position represents a change from the IMF's initial response to the credit squeeze in mid-2007, when IMF spokespersons expressed confidence that market forces would resolve the crisis. It also represents a departure from the Fund's policies during the Asian crisis of a decade ago, when the IMF advised countries in economic difficulty to adopt structural adjustment and austerity polices that, in the immediate aftermath, increased the negative impact on employment and living standards. The IMF has also published recent reports recognizing the failure of financial market regulatory agencies to control the practices that led to the US sub-prime crisis. It has endorsed proposals for increasing the transparency of new financial instruments, which seem to be playing a role in amplifying and spreading the impact of the US crisis, something to which trade unions had been calling attention well before the latest financial crisis.

7. Global Unions believe that the IMF must carry through with the policy changes by encouraging member countries to adopt polices that will protect working people and the poor from the economic downturn. The real "proof of the pudding" of the IMF's policy shift will be when it encourages developing countries, including those that are currently

borrowing money from the IMF, to adopt these kinds of measures. If the IMF were to limit its endorsement of anti-recession policies only to a few top-level declarations or in advice to a select number of developed countries, the policy shift will be of limited impact.

8. Unfortunately, on a country level there are many examples of the Fund continuing to promote traditional positions for reducing social programmes and labour regulations without paying sufficient attention to the negative consequences. Unions in Iraq were concerned recently to see the IMF, during the renewal of Iraq's Stand-By Arrangement, support the reduction of rations through the public distribution system, nine months after IMF and World Bank representatives told the unions that they would support no reductions in the system until the unions were consulted on alternative social safety net measures. The IMF also endorsed changes to the Iraqi pension system, which will entail reductions for some beneficiaries, without the trade unions having been consulted. In another context, the IMF recently expressed its opposition to the introduction of minimum wages in Germany on the pretext that the minimum wages "undermine work incentives". Global Unions believe that it is incumbent upon the Fund to fully evaluate the costs of doing away with social protection or labour regulations for workers' living conditions and on income distribution, and to ensure that trade unions are fully consulted.

9. On the other hand, Global Unions see the recent decline in the use of wage bill ceilings in IMF programmes as a positive development. Just as important is the need for the Fund to support borrowing countries' use of fiscal space to mitigate the impact of the economic slowdown. While the initial impact of the economic slowdown is taking place in industrialized countries, the ILO, the IMF and other agencies expect that developing countries will be seriously affected because of the ensuing reduced demand for their exports.

10. **Developing countries should be encouraged to become less export-dependent and to encourage the growth of domestic demand. Social expenditures will contribute to such a strategy, as will policies to increase the buying power of low-income workers. The IMF should give stronger support to freedom of association and collective bargaining rights for all workers and to minimum wage policies to help the lowest paid. It is worth remembering that 1.3 billion workers – 43.5 per cent of workers worldwide, according to the ILO's latest figures – do not earn enough to lift themselves and their families above the $2 per day threshold. Additionally, the IMF should support vulnerable economies' use of capital controls to protect themselves against increased financial turbulence.**

Implementation of commitments to reduce loan conditionality

11. Over the past several years, both the IMF and World Bank have adopted policies for reducing or "streamlining" structural or economic policy conditions attached to loans, thus responding to criticism that such conditions are intrusive and frequently harm the attainment of certain social and economic objectives. Recent evidence shows that progress has been slow in implementing the announced policies. The IMF's Independent

Evaluation Office (IEO), in a report released in January, found that "there is no evidence of a reduction in the number of conditions following the introduction of the streamlining initiative" in 2000. The IEO report does state that there has been a shift towards "core areas of IMF responsibility", such as fiscal and monetary policy, and away from such "non-core" conditions as privatization and labour market reform.

12. Although the IMF's management and board of directors expressed agreement with the findings of the IEO report, they did not adopt the specific recommendations, which included precise targets for reducing "prior actions" and "performance criteria" and the complete discontinuation of "structural benchmarks". There is also no indication that the IMF will reduce country-by-country policy advice, as opposed to loan conditions, in "non-core" areas such as labour regulations, where the Fund has no expertise. Many recent country-level IMF Article IV Consultation policy reports contain recommendations to deregulate labour markets.

13. For its part, the World Bank has announced "Good Practice Principles" for the application of conditionality, with the intent of reducing conditions and increasing country ownership. The Bank has claimed that the number of conditions per loan or grant has fallen since the principles were adopted in 2005, but a recent report from the European Network on Debt and Development (Eurodad) notes the following:

- The perceived reduction is due in part to the practice of bundling numerous conditions, previously counted separately, into one overall condition
- The number of legally binding conditions per loan has remained unchanged
- 71 per cent of all loans or grants contain sensitive policy reform conditions, such as price liberalization, privatization or trade reform

Global Unions consider that both the World Bank and IMF should put an end to economic policy conditions and, instead, limit obligations to those concerning respect for internationally agreed standards, including core labour standards.

IDA 15 is an opportunity for progress on conditionality

14. The ITUC, Global Union Federations and TUAC, together with other civil society organizations, have called for debt cancellation by the IFIs and an increase in concessionary development lending and grants as important necessary steps to "make poverty history". The agreement concluded in December among donor countries for the fifteenth replenishment of funds for the World Bank's International Development Association (IDA), following the earlier commitment in 2005 to cancel the debts of several low-income countries, represent significant additional contributions by several donor countries. Global Unions have long supported a substantial increase in official development assistance and believe that these resources can contribute to achieving development goals, but not if they are used to continue to impose the same kinds of policy conditions that the IFIs have promised to reduce.

15. As the World Bank moves towards implementation of the IDA 15 agreement, Global Unions encourage the World Bank's Executive Directors (EDs), who represent member countries, to follow through with the commitments that many countries made before and

during the IDA 15 negotiations. The EDs should take steps to further reduce conditionality in World Bank lending, thus following up on policy papers in favour of reduced conditionality that many donor countries have published. Two countries, the United Kingdom and Norway went even further by, in the case of the UK, temporarily withholding some contributions to the World Bank in 2006-2007, and in the case of Norway, reducing its IDA 15 contribution because of the lack of progress in reducing conditionality. Global Unions encourage all member countries to be vigilant that the World Bank follows through on commitments to reduce the economic policy conditions attached to its lending. Likewise, it is important that the debt cancellation initiative of the IFIs be extended beyond the thirty countries that have benefited so far, but without the economic policy conditionality that has been attached to the programme.

16. The international trade union movement is particularly concerned with the labour market policy conditions that require borrowing countries to relax protections for workers. These include the labour market flexibility indicators in the World Bank's Country Policy and Institutional Assessment (CPIA). Although not attached to a specific lending operation, the CPIA acts as a key determinant of access to Bank funds for the poorest countries. **Global Unions insist that the "Employing Workers" indicator of the *Doing Business* publication, which gives the highest ratings to countries that have the lowest level of worker protection regulations, not be used as a guidepost in the CPIA. The World Bank should not be rewarding countries for doing away with necessary protections for vulnerable workers on the pretext that this helps "improve the investment climate".**

Respecting workers' rights in World Bank operations

17. Global Unions have asked the World Bank to stop pressuring developing countries to get rid of workers' protection using the *Doing Business* template but, instead, to work in favour of implementation of the ILO's Decent Work agenda, which has four components:

- Employment creation and enterprise development
- Social protection
- Governance and social dialogue
- Respect for fundamental workers' rights and international labour standards

Global Unions have supported the important steps taken by some divisions of the World Bank Group to adopt requirements on core labour standards (CLS) in the projects that they finance.[2] Ensuring that World Bank operations do not violate the CLS deepens the development impact of World Bank projects.

18. Global Unions welcomed the inclusion, carried out in 2007, of requirements on CLS in the World Bank's standard bidding documents for procurement of works, which apply to projects financed by the World Bank's International Bank for Reconstruction and

[2] Core labour standards are internationally-agreed fundamental human rights for all workers, irrespective of countries' level of development, that are defined by the ILO conventions that cover freedom of association and the right to collective bargaining (ILO Conventions 87 and 98); the elimination of discrimination in respect of employment and occupation (ILO Conventions 100 and 111); the elimination of all forms of forced or compulsory labour (ILO Conventions 29 and 105); and the effective abolition of child labour, including its worst forms (ILO Conventions 138 and 182).

Development (IBRD) and IDA. Global Unions have encouraged the regional multilateral development banks – ADB, AfDB, EBRD and IDB – to work with the World Bank in adopting harmonized standard bidding documents which include CLS requirements, and have supported the regional banks that are taking their own measures to ensure compliance with the CLS in both public- and private-sector lending. The current challenge for the World Bank, as well as for the other multilateral development banks that will soon adopt CLS policies for public sector procurement and private sector lending, is establishing mechanisms to monitor and enforce the standards, including through training of bank staff concerning verification of compliance.

19. The World Bank's private-sector lending arm, the IFC, has worked most consistently in that direction. After making it a requirement that all IFC projects starting in May 2006 comply with the CLS and some other basic labour conditions, the IFC has prepared implementation guides, undertaken staff training and reached out to trade unions and other organizations willing to cooperate in efforts to ensure full compliance with the standards. The IFC has responded to information that trade unions have provided about actual or potential violations of the standards and helped to make tangible improvements in some projects. **Much additional work needs to be done, but Global Unions encourage the IFC to continue making further progress in ensuring its projects comply with the core labour standards requirement and propose that the public-sector lending arms of the World Bank, and the other multilateral banks, undertake similar measures to ensure full implementation of the requirements that they adopt.**

20. Despite the adoption of the CLS requirement almost a year ago in the Bank's bidding documents, which are particularly intended to apply to Bank-financed infrastructure projects, the kinds of steps taken by the IFC have not yet been made at the IBRD and the IDA. Given the increasing importance of World Bank financing of infrastructure construction, a cooperative approach with trade unions at both the international and the country level is necessary to ensure effective enforcement of the new CLS requirements. The World Bank should engage in staff training on compliance with the CLS and address the capacity of its partners at the country level to understand and enforce CLS policies. Particularly for large infrastructure projects, ensuring compliance with the standards may require training and capacity building not only of the World Bank project team, but also of local project supervisors and engineers. **Global Unions reiterate their proposals to work jointly with the World Bank in implementation and monitoring of the core labour standards requirements in Bank-funded projects.**

Core labour standards must not be neglected in country procurement systems

21. While the World Bank has formally adopted core labour standards requirements in its procurement process and has encouraged other multilateral development banks to do the same, its commitment must be called into question if it ignores labour issues in its country-level work on procurement reform. The World Bank has the responsibility to encourage countries to develop procurement systems that help meet development objectives, including social and labour considerations. Unfortunately, the Bank's current narrow emphasis on improving the transparency, efficiency, and fairness of public

procurement neglects to consider labour issues. While anti-corruption and competition are indeed important objectives of procurement reform and are appropriately emphasized in the Bank's work, labour standards should not be ignored as a "non-core" aspect of procurement.

22. The World Bank should be taking leadership on the issue of core labour standards in procurement. Now that it has adopted a CLS requirement in its own bidding documents, it should encourage its client countries to do the same and should not accept to use country procurement systems for Bank-financed projects until they have done so. For countries that do not yet consider CLS adherence and other social issues within their procurement systems, the World Bank should provide technical assistance and support, as it does for other aspects of procurement reform.

23. With regard to the shift towards country systems for procurement that is taking place both at the World Bank and in other multilateral institutions, Global Unions urge diligence when assessing the adequacy of country systems for procurement. The World Bank must correct its current approach, which is to not take into consideration whether countries include labour standards requirements in their procurement systems when it assesses whether those systems are equivalent to its own. **Given the World Bank's recent progress and commitments on core labour standards, it would be unacceptable if the Bank were to abandon the issue as it moves towards country procurement systems. The World Bank must ensure that there is full compliance with CLS in all Bank-financed projects.**

Changed role for the IMF in unstable economic times

24. Prior to his nomination, the new managing director of the IMF made commitments to undertake a major reform of the Fund. It is Global Unions' view that developing and transition countries will only consider accepting an enhanced role for the IMF once the Fund becomes more relevant for achieving development goals and financial stability. A restored credibility for the IMF could even lead to it being called to assist those countries that have recently taken steps to avoid borrowing from the Fund so as not to have to abide by unacceptable austerity or structural adjustment conditions. Reduced borrowing is one of the factors contributing to the IMF's financial problems, since the Fund's revenue from interest payments on loans has dropped sharply.

25. The G24 group of developing countries rightly criticized the IMF during the October 2007 annual meetings of the IFIs, when the world economy was beginning to suffer the effects of the US sub-prime crisis, for not paying sufficient attention to the regulatory deficiencies of the world's most advanced economies. The G24 called on the Fund to put "as much focus in evaluating their vulnerabilities as it does in emerging market economies". The G24 also urged the IMF "to come forward expeditiously with a concrete proposal on a new liquidity instrument" that would help countries face the challenge of increasingly volatile capital flows. Global Unions support these proposals, as well as the legitimate demands of developing countries for increased representation in the IMF's, as well as the World Bank's, decision-making structures. Vote restructuring

proposals should not only address the situation of middle-income “emerging economies” but also that of the low-income countries, which are most dependent on IMF resources and have been largely ignored in the restructuring proposals.

26. Renewed relevance for the IMF on the global scale also requires adopting multilateral instruments that will allow it to fulfil its mandate of counteracting international financial and economic instability and assisting countries facing financial difficulty. Some IMF reports have recognized the potentially destabilizing impact of hedge funds and highly leveraged buy-outs by private-equity funds. However no action has yet been taken to address the inadequacy of current regulatory regimes for obtaining greater transparency in the operations of these financial instruments, to end the unwarranted tax subsidies that they enjoy and to control their destabilizing impacts. Given the evidence that these financial instruments may be playing a role in spreading the effects of the crisis in the US financial sector throughout the global economy, Global Unions encourage the Fund to take leadership in developing new international regulatory frameworks.

27. Nor has action been taken to address the implications of the rapidly growing international role of sovereign wealth funds, beyond requesting that some of these wealth funds develop a voluntary code of conduct. Global Unions believe that the IMF should engage in consultations with all interested parties, including trade unions, on the need for new international rules governing their activities. Additionally, as the G24 pointed out during the IFIs’ last annual meetings, years of discussions at the IMF have yet to produce a viable emergency credit facility for countries in financial difficulty, even as a new phase of global financial turbulence has started. The same can be said of the much-debated sovereign debt restructuring mechanism or measures to protect economies against destabilizing speculative capital movements. Now that the downside risks of financial globalization have increased significantly with the start of the global credit squeeze, it is urgent to move forward by putting in place the necessary instruments to mitigate these risks and protect national economies against them.

28. Global Unions encourage the IMF to support the following measures:

- Broadening the IMF’s **multilateral consultation process to address not only the repercussions of global economic imbalances** between the US and Asia, notably on exchange rates, **but also the serious impact, especially in developing countries, of sharply increased energy and food prices**
- Creation of **a new emergency credit facility for countries in financial difficulty,** unhampered by the policy preconditions that rendered the former Contingent Credit Lines unusable
- Initiation of a process, including consultations with trade unions and other interested civil society groups in addition to private financial institutions, to create **international regulatory frameworks for private equity funds, hedge funds and related financial activities that are non transparent, exploit unwarranted tax subsidies and contribute to financial market instability**
- Initiation of consultations on the need for **new international rules for governing the investments and operations of sovereign wealth funds**

- Creation of a **fair and transparent sovereign debt restructuring mechanism** for orderly work-outs of debts owed mainly to private financial institutions
- **Measures to protect national economies against destabilizing speculative capital movements**, including a Tobin tax and capital controls put in place by national governments

Renewed emphasis by the World Bank on protecting the vulnerable

29. The World Bank also has an important role to play in countering the impact of the global economic slowdown. In low-income countries, higher fuel and food prices are eliminating many of the positive effects of debt cancellation, and all around the world the increased prices of basic necessities are having the greatest impact on poor people and working women and men. The World Bank must strive to ensure that incomes of people at the lower end of the income scale increase sufficiently to meet the increased costs. This is especially important for the most vulnerable workers, particularly women workers, who do not have the protection of access to collective bargaining. **Social safety nets need to be improved to respond to the impact of higher prices for necessities, but workplace regulations, particularly to protect the most vulnerable workers, also need to be improved and enforced.**

30. **The World Bank must recognize that it cannot take the same attitude to the regulation of enterprises' labour practices that financial authorities took to the sub-prime mortgage industry in the US: that is, allowing the regulated to dictate the level of (or more accurately, lack of) regulation, no matter what the consequences.** This is precisely the approach the World Bank is taking with its most highly promoted publication, *Doing Business*, which encourages countries to do away with a broad array of labour market regulations on the pretext that this will make their economies more business-friendly. In several cases, countries that have a poor record in protecting workers' interests or that suppress fundamental workers' rights are lauded by *Doing Business* as regional leaders for their labour practices because they have eliminated, or never had, basic labour regulations. Countries which are high on *Doing Business*'s "best practice" ranking for their lack of labour regulations include Belarus and Georgia in Eastern Europe, Afghanistan and Saudi Arabia in the Middle East, and Haiti in Latin America-Caribbean.

31. Unacceptably, the *Doing Business* labour market flexibility index has been incorporated into the Bank's overall labour markets strategy called "MILES", is used by the Bank as a determinant for access to funds from the IDA, and is used as the basis for recommendations for labour market deregulation in many World Bank and IMF country-level policy reports.[3] In an apparent effort to exclude those who do not endorse its deregulatory approach on labour issues, the World Bank's social protection and labour unit has refused to accept a nominee from the ITUC in the committee created to advise the Bank on its labour markets research and action plan. **It is time for the World Bank**

[3] A detailed analysis of the faulty "Employing Workers" indicator of *Doing Business* and a description of its use by the IMF and World Bank in several country cases is available on the ITUC's web site: http://www.ituc-csi.org/IMG/pdf/doing_business.pdf

to end its one-sided support for labour market deregulation by removing labour from the mandate of *Doing Business* and instead, to begin to support the ILO's Decent Work Agenda and to do so in cooperation with trade unions.

Conclusion

32. The international trade union movement calls on the IFIs to take measures to assist countries in counteracting the impact of increasing financial turbulence and the global economic slowdown, which will lead to increased unemployment and declining living standards for more vulnerable sectors of the population if no action is taken. The IMF must adopt measures for regulating the new non-transparent financial instruments that appear to be contributing to the spread of difficulties originating in the US financial sector around the globe. It must also establish the tools that countries, especially developing countries, will need to protect their populations against the negative impact of the economic slowdown and financial instability.

33. The World Bank must assist developing and transition countries in protecting their populations from the impact of the global economic slowdown, through increased emphasis on creating and protecting employment, improving social protection and respecting workers' rights. The World Bank should eliminate the retrograde *Doing Business* labour market flexibility index and its use in designing its labour market policies, and instead encourage borrowing countries to comply with the core labour standards and to create decent work. Global Unions urge the IMF and World Bank to make these important changes in their policies and programmes and to work jointly in implementing the new policies through engagement with trade unions, civil society organizations and the public of the countries that they serve.

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