Weakening protections for workers will not unleash growth: A response to the World Bank's prescriptions for Central America

Trade unions reject the World Bank's promotion of labour market flexibilisation in the report *Unleashing Central America's Growth Potential*.[1] The claim that reducing labour regulations will increase productivity, boost female labour force participation, and maximise the benefits of integration into global supply chains is not supported by evidence and experience. Pursuing these policies will have the opposite result. Workers, including women and youth, would be further trapped in precarious work. Central American growth and insecurity challenges would be exacerbated as this approach promotes inequality, a lack of shared prosperity from trade integration, and economies based on jobs with low wages, conditions, and productivity.

Workers and their trade unions should have a seat at the table with governments, international organisations including the World Bank, and employers in crafting effective policies including balanced labour regulations that promote decent work and inclusive growth.

Unleashing Growth decries rigidities in the labour markets of Central America and takes aim at the limits and costs associated with terminations, claiming that reallocation and productivity growth will result from reducing such regulations. Termination costs in the region are already low, with voluntary resignations costing nothing. The overriding problems are poor working conditions and low pay that fuel excessive turnover, and a lack of labour rights that allows employers to pressure workers into submitting voluntary resignations. Unions in export industries including automotive, apparel, and call centres regularly report between 50 and 80 per cent annual turnover, with no investment in worker training compounding the resulting low productivity. Many workers are trapped in a fruitless search for better working conditions and wages, while employers try to force higher productivity through pressure and refuse to raise wages when productivity does improve.

The World Bank manual *Balancing Regulations to Promote Jobs* reflects extensive dialogue and a "shared vision between the ILO and World Bank Group" on key topics. It reviews important considerations in termination regulations, summarising:

> "Dismissal procedures aim to (a) mitigate the adverse effects of any termination on the workers concerned and on their communities when dismissals affect large groups of workers at once and (b) protect workers from abuse and discrimination. In general, dismissal rules intend to provide protection against sudden loss of income and unfair or discriminatory practices. The fundamental principle behind their design is that the employment of a worker should not be terminated without a valid reason and that there should be scope for redress."[2]

A background paper to *Unleashing Growth* identifies gender discrimination as a barrier to efficient allocation of workers and recommends that policy reforms in Costa Rica and Panama focus on this area.[3] Blindly pursuing elimination of employment protection legislation would open the door to even worse discrimination and economic insecurity. A lack of enforcement of basic worker protections is a daily and systemic problem. Further deregulation will only fuel the problem and send a message to employers that irresponsible behaviour and underinvestment in the workforce can continue. Labour market deregulation does not belong alongside other recommendations by the Bank for female labour force participation, including childcare and safe transportation. To benefit women workers and

[1] Ulku and Zaourak, *Unleashing Central America's Growth Potential*, World Bank, 2021.
[2] Kuddo, Robalino, and Weber, *Balancing regulations to promote jobs: From employment contracts to unemployment benefits*, World Bank, 2015, page 24.
[3] Rishab Sinha, *Talent Allocation and Post-Reform Growth in Central America*, World Bank, 2020.

productivity, the Bank should focus on these policies and address gender-based violence consistent with ILO Convention 190.

The evidence and theory on employment protection legislation are more complex than asserted in *Unleashing Growth*. A study for the Bank's 2013 World Development Report on jobs, which recommended that countries pursue a plateau of effective regulation avoiding under-regulation and excessive limits, found "the theoretical expectation about the productivity effects of job security rules is indeterminate. Empirical work, mostly limited to OECD countries, turns out to be somewhat inconclusive as well."[4] The positive effect on training and skills with attendant benefits for productivity is also noted. Only "weak evidence" is found on a negative effect on technological change.

Raising productivity, including through the movement of workers between firms, can be addressed through active labour market policies, investments in workforce training and firm innovation, and coordinated policies for job creation and higher wages. Likewise, comprehensive policies for transitions from the informal to the formal economy should be pursued. Contrary to claims that eliminating regulations will spur hiring in the formal economy and cycles of growth, labour market deregulation has existed alongside a lack of progress on the informal economy and overall development.[5] Likewise, Central America has experienced significant rural to urban migration as part of previous economic change. Too many internal migrants remain in marginal areas of urban centres, earning little through informal work. Better access to transport, education, water, and other essential services are needed as part of broader efforts on transitions to the formal economy, and creating quality jobs in the formal economy.

Unleashing Growth presents cutting worker protections as a route to improve the impact of integration into global supply chains. However, a major problem facing Central America has been the lack of conversion from increased trade to better working conditions and shared prosperity. For example, widespread and brazen attacks of workers' rights occurred in Honduras across manufacturing and agricultural export companies under the Central America Free Trade Agreement.[6] The World Bank report advocates for raising the quality and price of exports. Reaching this goal to raise the quality and price of exports will require raising job quality and better training, stability, and living wages for workers.

The ILO Director General told the World Bank in 2017 that "the productivity premium for exporting and importing outweighs the wage premium by 13 and 5 percentage points, respectively." He concluded with an observation that is highly relevant in the context of COVID-19 recovery in Central America: "Effective policies that address the distributional impacts of trade are needed to realize the full potential of the global trading regime. Without urgent action by policymakers to expand decent work opportunities and reduce income inequality, the modest pick-up in economic activity now taking place may intensify, rather than diminish, political and social tensions."[7] As noted in the Bank report, a central barrier to investment is violence in Central America. It is also a daily issue for workers and trade unionists. Addressing this issue will require policies for quality job creation, rooted both in trade and domestic demand.

Social dialogue can take up the opportunities rightfully identified in the report, including investing in education and infrastructure, better on-the-job training and technical or vocational education, and supporting women's workforce participation with childcare and safe transportation. As Central America and the world plans for a sustainable and resilient recovery from COVID-19, it is time to leave behind counterproductive and failed advocacy for slashing worker protections.

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[4] Gordon Betcherman, *Labor Market Institutions: A Review of the Literature*, World Bank, 2012.
[5] See:
Piasna and Myant, eds., *Myths of employment deregulation : how it neither creates jobs nor reduces labour market segmentation*, ETUI, page 48.
Storm and Capaldo, *Labor Institutions and Development Under Globalization*, INET, 2019.
[6] AFL-CIO, Trade, *Violence and Migration: The Broken Promises to Honduran Workers*
US Department of Labor, Public report of review of U.S. submission 2012-01 (Honduras), 2015.
[7] ILO, *Director-General's statement to the Development Committee*, 2017.