THE INTERNATIONAL FINANCIAL INSTITUTIONS SHOULD CONTRIBUTE TO A NEW SOCIAL CONTRACT

Statement by Global Unions to the 2019 Spring Meetings of the IMF and World Bank

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Introduction

1. An equitable multilateralism rooted in a new social contract is needed to overcome a profound crisis of confidence and cohesion. The IFIs can create a virtuous cycle by supporting countries in forming paradigms that promote inclusion, shared prosperity and sustainable development. Past IFI policies contributed to the hollowing out of public services, the fracturing of the world of work through the weakening of trade unions and collective bargaining institutions, the erosion of social protection, and global economic integration through value chains that did not create quality jobs or national development. Social cohesion frayed as a result, and many policymakers turned away from international cooperation. Today, the IFIs can contribute to repairing these national and international rifts, but it requires reforming IFI policies to support broadly shared economic growth including secure work with living wages.

2. Global Unions[1] call on the World Bank and the IDA deputies to include systematic tracking of jobs outcomes in IDA-19, especially for support to the private sector in low-income countries if the Private Sector Window is extended. The IMF should align its upcoming, Board-approved institutional view on social spending with the SDGs, and support social protection, health and education for all. In this statement, Global Unions provide recommendations for the IFIs and a new multilateralism, bolstered by a commitment to just transition, gender equality, living wages and quality public services.

3. The report of the ILO Commission on the Future of Work provides an important roadmap for a changing world. A central recommendation of the report is a new social contract including a floor of a universal labour guarantee for all workers. This guarantee is made up of fundamental worker rights, living wages, occupational health and safety, and fair limits on working hours. IFI policy advice and conditionality should not undermine this. Some progress has been made by the IFIs on respect for labour rights, particularly

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 207 million members in 163 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.

in the World Bank's creation of a labour safeguard to protect workers on Bank-financed investment projects. The IMF has taken steps to operationalize work on income and gender inequality. However, more is needed to ensure that decent work is promoted by all lending and policy advice of the IFIs.

Slowing economic growth amid global uncertainty

4. Global economic growth is rapidly slowing down. The lift-off that policy makers were hoping to in the global economy just one year ago did not materialise. Instead, a joint downturn is occurring with major economies slipping into a low inflation, low growth trap that has prevailed since the global financial crisis. The role of key policy shifts such as the 'normalisation' of monetary policy and attempts by China to address overall high indebtedness by restricting credit expansion cannot be ignored. Moreover, this slowdown comes amongst a backdrop of increasing uncertainty on various fronts and could signal more trouble for the global economy ahead. The continuing trade showdown between the US and China, the prospect of a no-deal Brexit, slower growth in Europe, and volatility in commodity prices add to the risks of a worsening outlook. As workers failed to truly enjoy the benefits of higher growth and post-crisis recovery, it is now particularly worrisome that they might have to bear the costs of a weaker global economy.

5. In 2018, a gradual rise in US interest rates precipitated capital outflows from emerging market economy countries, causing the collapse of several currencies, with Argentina being particularly affected. This led to the onset of a crisis in in Argentina, which turned to the IMF for a loan agreement. While Argentina's currency seems to have stabilized, its economy has yet to recover. Despite recognizing that external factors played a significant role in causing the latest crisis in Argentina, the IMF programme required orthodox structural adjustment. The programme risks triggering yet another vicious circle in which the imposition of austerity deepens and prolongs the recession, thus further destroying financial market confidence instead of restoring it and further eroding public financial resources. This has happened before in several IMF – programmes with Greece one of the most telling examples.

6. As of early 2019, the US has put the brakes on further interest rate hikes, a turn that will help emerging market countries stabilize their currencies and reduce some of the pressure on their economies. Despite the current pause in interest rate hikes, record debt levels leave many borrowers both in the public and private sectors exposed and continue to constitute a risk for the global economy. While discontent and debates over globalization continue, trade on a global level is slowing down. Europe is much worse than expected with both Germany and the UK forecasted to experience below 1 per cent growth in 2018, and Italy diving into recession. Protests in France highlight the fraying social contract. Uncertainty, rooted in this lack of social cohesion and the crisis of democracy, is weighing on the continent and the global economy.

World Bank goals should fight inequality and all poverty

7. The leadership change is an opportunity to examine the operations of the Bank over the last six years and the challenges facing multilateralism today. The Bank should focus

on multilateral and national public investment that enables job growth and the expansion of a responsible private sector, such as investments in the care economy and low-carbon transportation infrastructure. Guaranteeing the profits of foreign investors that finance projects in developing countries and enabling risky manoeuvres to securitize infrastructure projects is not the primary mission of the World Bank.

8. All World Bank financing should be considered using a jobs lens, and the jobs outcomes of loans should be tracked. This should include a results assessment on direct and indirect job creation, types of employment relationships, wages, effect on local incomes and shared prosperity, gender pay and workforce data, average working hours, and health and safety indicators. This approach looks beyond the numbers of jobs created and examines if and how the lending has contributed to sustainable development. Global Unions urge the World Bank and the International Development Association Deputies to focus on jobs outcomes in IDA-19, particularly with regards to any continuation of the Private Sector Window to transfer IDA resources to IFC and MIGA to support the private sector in low-income countries. Support to the private sector with IDA funds should ensure that good jobs for development are created as a result.

9. The twin goals of the World Bank should remain guiding principles but need to be updated to align with the 2030 Agenda and make the Bank fit for today's challenges. The twin goals were adopted in 2013, before the Sustainable Development Goals. The gap is most glaring on shared prosperity, which the Bank chooses to define as income growth for the bottom 40 per cent. In contrast, SDG 10.1 aims to "progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average." Doing so will help reduce inequality in countries around the world. In some countries, income inequality has levelled-off after years of sharp increases. Aligning the understanding of shared prosperity with SDG 10 will position the Bank to assist countries in reducing inequality, and especially to support countries who are battling continued increases in income and wealth inequality. As it stands, the Bank focuses its shared prosperity work on the human capital agenda. Global Unions commend the Bank for supporting public investment in health and education, while noting concerns about the methodology and usage of the Human Capital Index. This includes trepidation about cross-country comparisons of standardized test scores and whether the index approach is best suited toward sharing best practices and promoting investment in quality health and education. Moreover, wage policy can no longer be put aside by the World Bank in considering shared prosperity. Countries need advice on restoring labour share of national income and establishing living minimum wages.

10. The fight against poverty is at the heart of the World Bank's mission. A fuller vision of poverty started to emerge at the Bank with the decision to track various poverty lines in 2017, based on country income categories. The Bank would benefit from greater engagement with UN regional economic bodies and other institutions that track various expressions of poverty based on the actual cost of living. When these metrics are considered, progress on ending extreme poverty is not as successful as it may initially appear. Global Unions call attention to the goal of raising people above the poverty line as the beginning of the process rather than the end point. It is important that social protection and other measures support the continued progress of individuals and families when they rise above the poverty line. Otherwise, existence just above the poverty line or

constantly shifting across it can become another trap. The next World Bank president would be well-served by reflecting on the twin goals and renewing them to establish a firm mandate for sustainable development.

Universal social protection and decent work to achieve inclusive growth

11. In the coming months, the IMF will finalize its institutional view on social spending, including social protection, health and education. This board-approved view has the opportunity to end short-termism and uncoordinated interventions that have weakened social protection systems, with devastating social and economic consequences. The IMF has often promoted overly narrow targeting and proxy means tests, despite the tendency toward the exclusion of needy recipients and an impossible burden on administrative capacity. The creation of the institutional view stems from a report of the IMF Independent Evaluation Office on social protection, and management expanded the scope to include health and education. Global Unions commend the IMF for a consultative approach to formulating the institutional view. However, this dialogue has mostly focused on social protection and the IMF should therefore consider further outreach and consideration on the topics of health and education. Trade unions, civil society and the relevant international organizations including the International Labour Organization, the World Health Organization and UNICEF should be an ongoing part of IMF involvement in social spending. The IMF should also assist countries in properly valuing the labour of frontline health workers, teachers, social workers and contribute toward their professionalization and fair renumeration. This will in turn increase the outcomes of social spending. Further, it supports the delivery of quality essential services and improve the effectiveness of social spending.

12. Global Unions support the extension of social protection to all workers, regardless of their employment relationship. This is an important pillar of the transition to a formal economy and social protection is needed by those in involuntary part-time, precarious, underpaid, temporary and subcontracted work. However, the extension of social protection to informal workers cannot be a pretext for eliminating contributory social security systems nor can it justify the elimination of labour market regulations and minimum wages. As recognised in the recent update of the OECD Jobs Strategy, policymaking needs to support stable jobs, broadly-shared productivity growth.

13. Strengthening social protection should be connected to a broader strategy of promoting living minimum wages, safe and secure employment, freedom of association and collective bargaining. In addition to social protection for all, the IFIs should support countries in ending regulatory gaps and addressing non-standard employment including false self-employment and other forms of disguised employment. There should also be support towards ensuring that employers pay their fair share of contributions for all of their workers. New forms of work have not simply appeared or evolved. The rise of precarious work is a result of policy failures and deliberate evasion of basic regulations by employers. The approach of coupling labour market flexibility with expanded social protection appeared in the much-criticized *World Development Report 2019* and should not be replicated elsewhere. The vision of progressive expansion expressed in some Bank documents relies heavily on individual savings accounts, which eliminate collective risk

pooling and place an inappropriate burden on workers to absorb shocks. This model is unrealistic for hundreds of millions of workers who receive poverty wages, and would be worsened by suggestions in the same Bank reports to reduce minimum wages and labour protection.

Global Value Chains for sustainable development

14. Nascent technologies that could allow the re-shoring of manufacturing to developed economies have stoked a longstanding debate on whether global value chains are delivering for development. For too long, the race-to-the-bottom for sub-poverty wages and no labour, social or environmental regulation has prevented value chains from supporting inclusive growth. This is coupled with widespread profit-shifting, corporate power and market concentration. The Bank's World Development Report 2020 on value chains can bolster momentum for binding mechanisms on business conduct. This includes a binding international treaty on business and human rights and the expansion of laws on mandatory due diligence with grievance procedures at all levels to provide remedy, such as the French law of vigilance.

15. There is a deep connection between working conditions and the development outcome of global value chains. If workers can achieve a fair share of the profit produced by global value chains, it will support sustainable national development and boost aggregate demand. Global value chains must also meet basic labour standards and other elements of the Universal Labour Guarantee recommended by the report of the ILO Commission on the Future of Work The IFIs should support countries in ending special economic zones that suspend the rule of law to benefit foreign investors. The IFIs have demonstrated an increasing awareness of the need for the reform of corporate taxation, but this much be matched committed advocacy for international action. Investor-State Dispute Resolution, much of it arbitrated at the International Center for Settlement of Investment Disputes of the World Bank Group, must be reformed to stop corporate greed and barriers to necessary national labour, environmental and social regulations.

An end to wage suppression and harsh austerity

16. Global Unions welcome the concern of the IMF with increasing inequality. The IMF has recognized that income inequality has a negative impact on economic growth and macroeconomic stability and it should be taken into account when making policy prescriptions. However, evidence from recent IMF lending agreements shows that the Fund continues to prescribe policies and impose conditions found by IMF research to increase inequality.

17. IMF research found that austerity policies have negative effects on income distribution through multiple channels. Rapid fiscal consolidation that limits recovery and economic growth remains at the forefront of IMF loan conditions. The cost of adjustment falls unevenly onto the most vulnerable members of society. Fiscal adjustment decreases spending on social services, with a particularly heavy impact on provision of healthcare services. While the IMF has sometimes introduced social spending floors that are meant to protect the most vulnerable members of society, these floors can be insufficient to even provide basic healthcare. Although introducing spending floors is a welcome

development, those floors should be high enough to cover the costs of adequate public services. Further, floors should assure that programmes do not prioritize debt repayments over crucial services.

18. The Fund's recent loan agreements also include measures that further weaken labour market institutions, another factor found to increase income inequality. As part of its fiscal adjustment programmes, the Fund recommends a reduction in the total public sector wage bill in 21 out of 26 recent programmes. In 7 of those agreements, there were loan conditions on reducing the public wage bill (*Eurodad, Unhealthy conditions: IMF loan conditionality and its effect on health financing*). It is questionable whether this requirement would truly lead to savings, or simply outsourcing of labour that leads to profits for intermediaries and more precarious labour conditions. Reduction in public sector wage bills and wages decreases the provision and quality of social services. In the Fund's most recent agreement, with Ecuador, the brunt of the required fiscal consolidation is borne by workers and is to be achieved through layoffs and reductions in wages.

19. Global Unions commend the Fund's how-to notes for staff on operationalizing inequality in country work and support widespread adoption of these notes in a swift manner. The approach should be utilized in the design of IMF loans conditions. Alternative policy packages should help countries pursue sustainable and inclusive economic growth, and not merely tweak regressive proposals. To date, the consideration of alternatives has been limited (*Bretton Woods Project, The IMF and Gender Equality: Operationalising Change*).

Global Unions' recommendations

Measures to support a new social contract and a universal labour guarantee

20. The IMF and World Bank should

- Support a new social contract for governments, business and workers, with a universal labour guarantee that provides a protection floor for all workers. This will also require full gender equality and new rules for the global economy in which business is driven by due diligence and accountability.

- Support sustainable growth and inequality reduction by examining the effects of policy advice and lending on economic and gender inequality. Pursue alternative policy packages when needed.

- Support shared prosperity and the recovery of labour share of income by promoting living wages, collective bargaining and strengthened labour market institutions. End the promotion of labour market deregulation, decentralisation of collective bargaining and wage suppression.

- Promote the protection of workers in precarious and non-standard work to avoid excessive, improper and abusive use of employment relationships that undermine productivity and growth.

- Contribute to the strengthening of public administrative capacity and public investments in quality services and sustainable infrastructure. Work with governments to properly regulate private involvement in development, to preserve access to services and financial stability.

- Support the realization of universal social protection including social protection floors, in line with international labour standards and the Sustainable Development Goals.

21. The World Bank should

- Work jointly with trade unions, the ILO and other multilateral development banks on the implementation of the labour safeguard (ESS 2) to ensure that Bank-financed activities are in full conformity with international labour standards.

- Systematically analyse the jobs outcomes of lending, particularly under the IDA Private Sector Window. Use the information to ensure that financing promotes good jobs for development, shared prosperity and poverty reduction.

- Align its operation and twin goals with the 2030 Agenda through action to reduce income inequality, better address multidimensional poverty and promote decent work.

- Encourage a just transition for workers affected by climate change and shifts to a low-carbon economy. Promote tripartite social dialogue to design just transition plans, and support implementation with financing and policy advice.

22. The IMF should

- Support necessary regulation of the financial sector, including shadow banking systems and too-big-to-fail financial groups.

- Promote actions including automatic exchange of information and reform of transfer pricing mechanisms to counter the erosion of tax bases, the use of tax havens, profit-shifting and the challenges of digitalisation. Support reforms of taxation systems that move toward broad-based progressive taxes, and the introduction of financial transaction taxes to discourage speculative behaviour and create new sources of revenue.

- Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debt.

- *Support countries in financing a just transition to a low-carbon economy and the boosting of aggregate demand, including through responsible public investments in sustainable infrastructure, the care economy and quality public services.*