GLOBAL EMPLOYMENT CRISIS REQUIRES IFI SUPPORT FOR JOB CREATION, NOT AUSTERITY

Statement by Global Unions[1] to the 2010 Annual Meetings of the IMF and World Bank Washington, 9-11 October 2010

Introduction

1. Global Unions are deeply concerned that the recent shift by the international financial institutions (IFIs) away from support for stimulus policies toward advocacy of fiscal consolidation will endanger the fragile recovery and prolong current high jobless rates for years to come. Signs that economic growth is slowing in some regions of the world barely months after the recovery began raise the probability of a double-dip recession to which the policy shift will have contributed. Austerity conditions have been applied in recent IMF loans and their negative impact on working people has already been felt, as are the impacts in terms of the rapidly declining quality of public services that will cause long-term harm to countries' development. A renewed recession will also slow progress in attaining the Millennium Development Goals, already severely compromised due to negative economic growth in 2008-2009 and failures to keep aid commitments. **This statement calls on the IFIs to reject austerity programmes and to support job-focused stimulus measures and investments in quality public services to assist in the recovery.**

2. Some countries have adopted new financial market regulations in an attempt to rein in some of the insufficiently regulated activites that led to financial collapse. But other countries have not made progress, and the lack of international coordination in establishing a new regulatory framework, which Global Unions and countless others called for, is a significant failure. This statement calls on the IMF and other international bodies mandated to develop a financial regulatory framework to take concrete steps in that direction. **They should also assist in the design and implementation of a financial transactions tax that will contribute to repairing the damage caused by the financial crisis, including unacceptably high rates of joblessness, and help fulfil major development and climate change finance commitments made by the international community.**

3. **Some fundamental causes of the 2008-2009 crisis, often summarized as "global imbalances", have yet to be seriously addressed, including the rising income inequality and falling labour share of income around the world.** The IFIs should pay greater attention to the underlying problems that explain stagnant and

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 175 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.

declining real wages, including widespread violations of workers' rights. On the positive side, the World Bank recently improved labour standards requirements for the infrastructure projects that it funds, and should now work to ensure effective implementation of the requirements.

Need for employment-focused stimulus measures

4. The IMF adjusted upward its most recent global growth forecasts for 2010 on the basis of stronger growth in the first few months of the year. Developments around mid-2010 were less positive, with economic growth slowing in some of the world's largest economies, such as the United States and China. Some analysts have revised their forecasts downward, especially in light of many governments' plans to wind down stimulus programmes, and several are openly talking of a double-dip recession.

5. The labour market has not improved in most countries despite a resumption of global growth in 2010. Unemployment and underemployment remain at the high levels reached at the peak of the recession, consistent with G20 leaders' prediction made at their Pittsburgh Summit in September 2009: *"Without sustained action, unemployment is likely to continue rising in many of our countries even after economies stabilize, with a disproportionate impact on the most vulnerable segments of our population."* In April 2010, G20 labour ministers followed up with a recommendation that *"continued attention be paid to job creation and job preservation, including vigorous implementation of existing policies and consideration of additional employment measures. In countries with extensive underemployment, informal sectors, and/or high rates of poverty, we recommend targeted efforts to generate employment for poor households and vulnerable groups …"*. On the global level, the International Labour Conference of June 2009 adopted a *Global Jobs Pact* that similarly called for vigorous action to combat the employment crisis.

6. The stimulus policies adopted by the G20 and other countries must be continued in countries where a sustained economic recovery has not been achieved, and should be redesigned so as to build in a sharper employment focus. Large infrastructure projects that were started or accelerated as part of anti-recession strategies have played an important role in stimulus programmes and should be continued, especially if they serve to increase overall productivity. However smaller-scale projects, such as those to increase energy efficiency or for renewable energies and the reduction of greenhouse gasses – Green Jobs – often have equal or higher employment content. Such is also the case with investments in education, training and health care, which not only create jobs quickly and throughout the country, but also provide the basis for long-term productivity gains. Much-needed investments in developing-country agriculture will not only create jobs where they are needed most but can also help to improve food security and the living standards of the rural work force.

7. In addition to creating jobs for unemployed women and men, stimulus policies should integrate gender policies and programmes that aim at redressing deeply rooted gender inequalities in labour markets. Whereas the crisis is having negative employment impact for both men and women, it is likely to further increase the precariousness of women's jobs. **The IMF and World Bank should make employment creation a major priority for their actions and support the decent work agenda through improved income-replacement programmes and active labour market policies for both women and men.**

IMF assistance should be extended to support recovery

8. The support for employment creation is most important in those countries that have required emergency financial assistance from the IMF in order to confront financial and economic crises. However, the most recent series of loans granted by the IMF show that the emphasis has shifted to fiscal consolidation and reduced deficits, even though in 2009 some of the loan programmes were adjusted to permit expanded deficits to counteract the impact of crises. For example, in 2009 the IMF agreed that the fiscal deficit in Ukraine could exceed 8.5 per cent of GDP, but in a new $15.1 billion loan agreement concluded in August 2010 the deficit must decline to 3.5 per cent of GDP by 2011 – to be achieved through wage freezes, pensions cutbacks and utility price increases – even though the rate of recovery is slow and the IMF expects no decline of unemployment for several months.

9. In the case of Jamaica, the IMF's $1.27 billion lending agreement of February 2010 requires a reduction of the fiscal deficit through increases in consumption taxes and fees for public services, a freeze in public sector salaries and reduction of the wage bill, and several privatizations. Teachers and other public sectors workers have not been paid negotiated reimbursements of salary arrears because of the loan agreement. These measures are taking place in a country where the economic output shrank in 2008 and 2009 and is expected to contract for a third year in a row in 2010. Unemployment will increase further because of the austerity measures.

10. For Greece, which negotiated one of the largest lending agreements in the history of the IMF – combined with financing from EU countries, the total loan amount is €110 billion – the government has been obliged to undertake massive austerity measures and slash the public sector deficit in the middle of a recession. As a consequence, the IMF expects unemployment to climb from 9 per cent in 2009 to almost 15 per cent in 2012. Despite severe spending cuts, the IMF projects that the level of government debt will increase from 115 per cent of GDP in 2009 until at least 2013 when it will reach 149 per cent of GDP. Instead of making it better, the austerity programme is making the debt situation worse in the medium term by intensifying the shrinkage of the economy**.**

11. The renewed emphasis on austerity is also affecting the world's poorest countries. A recent report published by Oxfam, which examined budget policies of 56 low-income countries, found clear evidence of a reversal of policy between 2009 and 2010: *"In marked contrast to the response to the Asian financial crisis in the late 1990s, two-thirds of the countries surveyed have increased their budget deficits, providing a laudable initial 'fiscal stimulus' to combat the crisis. But only one-quarter have continued this stimulus in 2010. Countries with IMF programmes implemented more stimulus than others in 2009 but, conversely, are forecast to cut it back more sharply in 2010."*[2]

12. **The IMF should use its expanded financial resources, which were tripled in 2009 and which the Fund proposes to increase further, to encourage countries affected by the global crisis to deploy counter-cyclical fiscal policies over longer periods of time until they have fully emerged from recession situations. Additionally, the situation of Greece and many other countries underlines the**

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[2] Kyrili and Martin, *The Impact of the Global Economic Crisis on the Budgets of Low-Income Countries*, Oxfam International, July 2010

need for a fair and transparent sovereign debt restructuring mechanism that can be used by countries with unsustainable debt levels.

Resurgent food price crisis requires IFI action in low-income countries

13. Low-income countries have been affected by the economic crisis through a combination of the impact of the global recession of 2008-2009 and a resurgence in 2010 of the food price crisis, which hit its previous peak in 2008. These crises have further compromised attainment of the Millennium Development Goals for poverty reduction, and improvements in health, education and other goals.[3] Progress in achieving the MDGs has also been threatened by the failure of donor countries to fulfil development commitments, notably those made by G8 leaders at their 2005 Summit in Gleneagles, Scotland.

14. The World Bank has made much of its expanded financial assistance to developing countries over the past two years, but assistance to low-income countries, where the biggest challenges for attaining the MDGs exist, have increased at a much slower pace. The interest-free loans and grants issued by the IDA, which provides assistance to 79 low-income countries, increased by only 3.6 per cent in 2009-2010, versus a 34 per cent increase from the interest-bearing loan division, the IBRD, according to the Bank's fiscal year-end report. But the resurgent food price crisis will have the hardest impact on working people and other vulnerable groups in low-income countries.

15. **The World Bank should work with donor countries to ensure that additional assistance is made available for those affected by the new spike in food prices, and additional debt relief extended to low-income countries. Both the IMF and World Bank should provide recommendations for measures that would remove speculative financial investments from food commodity markets since they have clearly contributed to price volatility.**

Workers' declining income share: Redressing the global imbalance

16. Considerable attention has been given to "global imbalances" as a root cause of the global financial and economic crisis that broke out in 2008, but most of the focus has been on the imbalances between large trade surplus and deficit countries. Important though this is, more attention should be given by the IFIs to one of the fundamental causes of the trade imbalance as well as other factors of destabilization: the growing income inequality within most countries of the world, both developing and industrialized, that has accompanied the globalization process of the last three decades.

17. Labour market "flexibilization" has been a major contributor to the rise in inequality. Workers in precarious work, with atypical employment contracts, often have no right or possibility to engage in collective bargaining and are thus unable to improve their working conditions. They are also the least able to cope with economic shocks when they occur. One especially troubling aspect is the over-representation of women in precarious work situations, such as part-time, temporary, agency or outsourced jobs. In developing countries, women are usually found in the lower levels of global supply

[3] See ITUC, *Trade Union Statement to the 2010 Summit of the General Assembly on the Millennium Development Goals*, United Nations, New York, 20-22 September 2010

chains or towards the periphery of production systems, precisely where wages and quality of employment are the poorest.

18. Even before the global economic crisis, stagnant or declining real incomes for many working people was a major cause of the phenomenon of growing inequality. With few exceptions, labour's share of national income has declined because workers' real wages have not increased in line with increases in productivity. Because of stagnant domestic markets due to insufficient workers' incomes, several countries have adopted economic polices seeking to increase their share of world exports without increasing imports, thus creating the external imbalances that the IMF and other agencies have identified as destabilizing. And in some countries, financial firms have sought to get around the reality of stagnant workers' income by aggressively increasing lending to already heavily indebted households, including through predatory practices, leading to the sub-prime mortgage crisis in the US and similar situations in other countries.

19. Redressing the declining income of working people and closing the gender pay gap should be major objectives of international institutions such as the IMF and World Bank. **The IFIs cannot claim to have successfully contributed to countries' development if national incomes are more and more skewed towards a wealthy elite. In addition to contributing to the growth of inequality, policies which ignore the distributional impact increase the potential for economic and social instability, as was made clear by the 2008-2009 global financial crisis and recession.**

Improved workers' incomes and social protection to reduce inequality

20. Policies can and should be implemented that begin correcting the growing inequality and declining labour share of national income. First and foremost are policies for supporting quality employment – decent work, including respect for core labour standards and adequate social protection for all – as part of global economic recovery efforts but also as part of a long-term sustainable development strategy. It is important to note that countries with adequate income protection programmes and well-functioning tripartite dialogue mechanisms weathered the recession far better than countries with deregulated labour markets and low levels of social protection. In developing countries, the extension of basic social security to people with no form of social protection, public works programmes and increases in minimum wages have proved to be highly effective in stimulating employment creation in less favoured sectors or regions by increasing the cash income flow into those areas.

21. G20 leaders endorsed a *Framework for Strong Sustainable and Balanced Growth* at their Pittsburgh Summit that contained some of these elements, which were further elaborated on by G20 employment and labour ministers, meeting in Washington in April, who added the need to strengthen social protection and support active labour market policies. The IMF was asked to develop a *G20 Mutual Assessment Process* to encourage countries to adopt policies consistent with a balanced growth agenda. However the shift towards austerity policies in 2010 indicate that little was done to implement these policy frameworks.

22. **The IFIs must encourage and support countries that adopt labour and social protection policies aimed at reducing inequality and improving the incomes of working people.** Brazil, which was previously one of the most unequal countries in the

world, began to make inroads in reducing income inequality by a combination of increased minimum wages and expanded income transfer programmes directed at low-income households. Support for labour market institutions and processes, such as collective bargaining, are also key elements for reducing inequality.

23. Social protection policies encouraged by the IFIs must focus not only on equal treatment of men and women but also on a gender equal outcome of provisions. Extending social security to all regardless of their employment status will directly benefit women due to their high presence in informal, precarious and unpaid work. Providing adequate maternity protection to all working women ensures women's equal access to the labour market and reduce income inequalities between men and women.

24. **Support for policies such as these rather than the promotion of labour market deregulation and reduced contributions to social security, which was the hallmark of the World Bank's highest-circulation publication, *Doing Business*, would make a contribution to reducing income inequality and improving living standards of working people. In the context of the *G20 Mutual Assessment Process*, the IMF should recognize the International Labour Organization's (ILO) competences in the areas of employment and social protection, and invite the ILO to prepare substantive chapters on employment and social policy regarding each G20 government's actions in response to the crisis. Measures to support decent work and to reduce labour market and income inequalities should be included in the recommendations**.

IFIs must support quality public services

25. People need access to public services such as education and health care at all times, but they become even more important during crises. Investing in public services is the most effective way to create new jobs in the short run and for ensuring sustainable development in the long run. Without quality public services, the gap between rich and poor will continue to grow and the private sector cannot function at its full potential. By cutting essential public services in order to meet fiscal discipline goals, governments not only create immediate hardship and huge social costs, but they harm the growth of productivity and overall development of the country in the longer term.

26. Reduced spending for education, which has occurred from the application of austerity programmes in some countries that have received emergency loans from the IMF, could create a "lost generation" of children and young people with insufficient and inadequate education. In many developing countries, the lack of sufficient financial resources to fully fund the Education for All initiative has meant that prior progress in achieving the Millennium Development Goal of universal primary education is being reversed. The tendency of governments to cut costs, sometimes with World Bank support, by staffing schools with untrained and unqualified teachers also undermines prospects of achieving quality education for all. **The IMF and World Bank should support increased spending for quality public services such as education and health care in countries receiving financial assistance from the IFIs and help to mobilize the additional funding needed to achieve the goal of universal basic education.**

Protecting fundamental workers' rights in IFI-financed activities

27. The IFIs should pay greater attention to the underlying problems that explain stagnant and declining real wages, including widespread violations of workers' rights. The core labour standards[4] (CLS) have been established as fundamental workers' rights that all countries should respect and also create the basic conditions required for working people to be able to improve their working and living standards. Violations of these standards have in some cases taken the form of new legislation that contradicts or limits rights established by the standards under the pretext of a so-called imperative to address the impact of the crisis. A number of these are documented in a detailed report published by the ITUC.[5]

28. The IFIs' most effective contribution to policies that are consistent with CLS is to make certain that their own operations comply with them. The IMF should ensure that loan programmes with borrowing countries are not used by governments to deny some of these rights, such as withdrawing collective bargaining rights under the guise of an austerity programme. World Bank loans used to finance restructuring of government services or enterprises should similarly require that the CLS are upheld. In the area of Bank-financed infrastructure construction and projects financed by the Bank's private-sector lending arm, IFC, important steps have already been taken to require CLS compliance.

29. In 2009, the World Bank and the regional development banks jointly agreed to incorporate CLS clauses into their harmonized procurement of works documents, applicable to lending for construction projects by the multilateral development banks, which were subsequently published with approval by all of them.[6] **The World Bank needs to undertake implementation actions to ensure full compliance with the core labour standards in Bank-funded projects, which will require training of Bank and government officials and appropriate monitoring and follow-up at the project level, including the establishment of a complaints mechanism to signal cases of non-compliance.** Global Unions have offered to cooperate with the World Bank and the regional development banks in the implementation of the requirements.

30. The IFC, which in 2006 included CLS requirements in its social and environmental performance standards, is currently engaged in a revision of the standards that is examining what supplemental monitoring and enforcement mechanisms need to be created, for example concerning financial intermediaries, which represent a large and growing proportion of IFC's portfolio. The performance standards should also be updated in light of the massive job losses resulting from the global economic crisis. IFC's standards should include requirements for firms to provide adequate advance notice and severance pay and to avoid dismissals of workers to the greatest extent possible, which could be done through negotiated reduced working time or training

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[4] 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 right to collective bargaining (Conventions 87 and 98); the elimination of discrimination in respect of employment and occupation (Conventions 100 and 111); the elimination of all forms of forced or compulsory labour (Conventions 29 and 105); and the effective abolition of child labour, including its worst forms (Conventions 138 and 182).

[5] ITUC, *2010 Annual Survey of Violations of Trade Union Rights*, June 2010

[6] International Federation of Consulting Engineers (FIDIC), *Conditions of Contract for Construction: Multilateral Development Bank Harmonised Edition*, June 2010

programmes for example. **Global Unions have submitted detailed recommendations for improving the performance standards, which they invite IFC to adopt. The recommendations aim to ensure that IFC's investments contribute more effectively to global creation of decent work, including respect of core labour standards.**

A coordinated global approach for financial regulation

31. The G20 Pittsburgh Summit statement of September 2009 spoke of "*major failures of regulation and supervision, plus reckless and irresponsible risk taking by banks and other financial institutions* " and the need for "*sweeping reforms to tackle the root causes of the crisis and transform the system for global financial regulation*". Some countries have adopted new financial sector regulatory regimes that will apply to previously unregulated or under-regulated activities. But exemptions and gaps remain in these new regulations, and many other countries have yet to move forward on a major overhaul. The international coordination that was implied in the G20's call for a transformation of the system for global financial regulation has not materialized. Two international institutions, the IMF and the newly expanded Financial Stability Board (FSB), were asked by the G20 to work on aspects of an international framework for regulatory reform but have delivered few results. Additionally, the FSB has operated in an opaque manner and refused to engage in serious exchanges with Global Unions, including its affiliates in the finance sector, although working people have been the greatest victims of the failures of regulation and supervision.

32. **Global Unions have put forward detailed recommendations for financial regulatory reform in each of the following areas, and they urge the IMF, FSB and World Bank to assist countries in putting into action the sweeping reforms that the G20 leaders promised in 2009. The following should be addressed as priorities**:

- Establishing controls over the shadow financial economy, hedge funds and private equity firms
- Adopting rules for "ring-fencing" risky investment banking activities from other banking operations
- Eliminating tax and regulatory havens
- Integrating asset and leverage risks in prudential rules for banks
- Reining in bonuses and other irresponsible and excessive financial-sector remuneration plans
- Restricting shareholder dividends, share buybacks and leveraged loans
- Strictly regulating credit rating agencies
- Protecting against predatory lending
- Enhancing the mandates and resources of supervisors
- Supporting financial services that serve the real economy, including through cooperative banking, mutual insurance and public financial services
- Tackling capital flight from developing countries, including through the World Bank's *Stolen Assets Recovery Programme*

A financial transactions tax for job creation and development goals

33. Support for a financial transactions tax (FTT) has been growing since G20 leaders agreed at their September 2009 Summit in Pittsburgh that the financial sector should

"make a fair and substantial contribution" to pay for the extraordinary government interventions that were required to save the private financial system from collapsing under the weight of its own risky investments. The financial burdens imposed on governments by the crisis were not limited to the cost of bailouts, but also included the costs of unemployment benefits, extraordinary job creation and other economic stabilization measures, and the loss of government revenues because of the reduced level of economic activity. All these should be included in the cost of the financial crisis and its repercussions, which have led to major fiscal challenges for governments around the world. Additional government revenues will be needed to stimulate the creation of sufficient jobs to bring employment levels back to pre-crisis levels. Furthermore, several governments have made important commitments for official development assistance and for climate change financing for the coming years.

34. Global Unions, its member organizations and affiliates around the world support the FTT because it will generate important revenues needed to fill the fiscal gap created by the financial crisis and ensuing global recession, along with development assistance and climate-change finance commitments. The European Parliament and the inter-governmental Leading Group on Innovative Financing for Development have issued reports that recognize the positive role an FTT could play. The IMF, which has prepared reports on taxation of the financial sector for the G20, found that different types of FTT have been successfully applied in several G20 countries and in other financial centres, that the administrative costs would be low compared to other taxes and that a broad-based FTT could raise substantial revenues. Although the IMF's main report for the G20 on financial sector taxation expressed preference for other options, it concluded that *"sufficient basis exists for practical implementation of at least some form of FTT".*

35. A number of civil society organizations, governments and business leaders have supported the idea of an FTT. Along with its revenue-generating capacity, an FTT could contribute to reducing "short-termism", asset-price bubbles and recurrent financial crises, and instead encourage productive job-creating investments in the real economy. The experience with existing transactions taxes shows that such a tax can be successfully applied in one or a few jurisdictions, but an internationally agreed and coordinated implementation process will obviously lead to even more effective application. **Given the growing world-wide interest in the FTT for repairing the costs of the financial crisis, restoring employment levels and achieving development and climate-finance goals, the IMF should provide advice on the coordination it can offer towards the implementation of the FTT.**

Governance reform at the IFIs

36. Global Unions have frequently supported calls for both the IMF and the World Bank to undertake a process of governance reform that would substantially increase the representation of developing countries in the institutions' decision-making structures and improve accountability for IFI programmes. The G20, at the Pittsburgh Summit in September 2009, recognized the imbalance in representation and proposed that the World Bank and IMF increase voting shares of developing countries by at least 3 and 5 per cent, respectively.

37. The World Bank took this modest step in April 2010, shifting a small percentage of voting shares to "developing and transition" countries and expressing the intention to develop a formula that could be used for future recalculations of voting weight. In fact,

these changes continue to favour more developed countries. They bring the greatest gain to middle-income countries and even to sixteen countries that the Bank classifies as high-income economies. The IMF is still struggling internally to undertake this shift. While it is positive that the IFIs recognize that governance reform is necessary for both their international legitimacy and effectiveness, these small shifts in voting power proposed by the G20 and so far only partially implemented are not sufficient. **Global Unions and many other civil society organizations insist that developing countries should achieve at least parity representation with industrialized countries at both the World Bank and IMF. They also support a double-majority voting rule in the IFIs' boards of directors, whereby both a majority of countries and of weighted votes would be required to take decisions.**

38. The IFIs' legitimacy and their degree of accountability also depend on their practices regarding consultation of those directly affected by their policies and programmes. In numerous cases of Bank-financed projects or restructuring plans, unions learned of the plans only after all the decisions had been made, even though the Bank has produced toolkits and best practice guides recommending early consultation with workers' representatives on the labour impact of its restructuring projects. It is not yet clear whether the Bank's new access to information policy of July 2010, which includes important improvements but still allows many exemptions for draft documents, will change this situation.

39. Many of the IMF's recent emergency loans have also had a major impact on employment levels, wages, benefits and working conditions, particularly among public sector workers. In most cases, workers and their organizations have not been informed until the agreements are already completed. Both IFIs should ensure that they consult trade unions whose members are affected by projects or lending programmes before the project is finalized or the terms of the loan are concluded. **Particularly in countries where governments fail to consult trade unions on the impacts of IFI initiatives on workers, the IMF and World Bank should inform and consult the workers' organizations involved before finalizing any project or loan agreement with the government.**

Conclusion

40. Global Unions urge the IMF and World Bank to adopt policies that confront the global employment crisis and contribute to a sustainable recovery, and not allow private financial institutions to dictate a shift to austerity policies that will cause long-term economic and social damage. A global framework for financial regulation is needed to prevent recurrence of the 2008 financial and economic crisis, an area where the IMF could play a much stronger role, as it could for the design and implementation of a financial transactions tax to contribute to paying for the costs of the crisis as well as development and climate-finance commitments. The IFIs should develop rapid action plans to respond to a resurgent food price crisis, particularly in low-income countries, and adopt a policy approach that begins to reverse three decades of growing income inequality to the detriment of working people around the world. Lastly, Global Unions call on the World Bank to follow up on positive recent steps it has taken in requiring compliance with the core labour standards in Bank-funded construction projects by ensuring full and effective implementation.

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