Reform the international financial institutions to promote sustainable economic growth, full employment and decent work

Statement by Global Unions to the Annual Meetings of the IMF and World Bank
Washington, 18-20 October 2019

Introduction

1. The response of the international financial institutions to the last crisis resulted in an age of anger that threatens democracy. Despite an unstable economic outlook and recognition of challenges to multilateralism, changes at the World Bank and International Monetary Fund are halting and limited. Multilateralism must be reformed, and a new social contract forged, undergirded by the elements of Sustainable Development Goal 8: sustained and inclusive economic growth, full and productive employment, and decent work for all. International Financial Institutions (IFIs) should prioritise full employment with a labour protection floor to ensure quality jobs for all those seeking employment. This means ending promotion of labour market deregulation, privatisation, austerity measures and wage suppression. These policies increase inequality, impede sustained economic growth and fuel precarious work. The IMF and World Bank should support countries in making public investments and building stronger labour market institutions including collective bargaining systems.

2. In this statement, Global Unions[1] offer recommendations to pursue these goals and reform multilateralism. IFI action is needed to support countries in reducing emissions to keep a global temperature increase below 1.5 degrees centigrade, alongside a just transition for workers affected by climate change. To reduce the risks of a global economic recession or debt crises, the IMF should support policies to rein-in risky behaviour in the financial sector and create a binding multilateral sovereign debt workout mechanism. Global Unions urge a focus on creating quality jobs and alignment with international labour standards in all World Bank operations, including through the 19th round of replenishment of the Bank's International Development Association.[2]

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[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.
[2] The full set of trade union recommendations for IDA replenishment: <https://www.ituc-csi.org/ida-19>.

As global recession looms, avoid the mistakes that followed the financial crisis

3. The slowdown in global growth persists and risks of a global recession are mounting. Germany, once seen as the economic powerhouse of Europe, is slipping into negative growth territory. Tensions between the US and China continue with further tariffs and escalating threats. Trade tensions are spilling over through global supply chains, affecting trade flows and investment decisions. The uncertainty surrounding Brexit continues. The global slump is likely to continue with further challenges in emerging market economies, geopolitical tensions that threaten commodity prices, and unstable global trade patterns.

4. Loose monetary policy has been the primary tool for stimulus since the 2010 end of post-crisis fiscal stimulus measures. Long periods of low interest rates have fuelled a search for higher returns and an increase in speculative cross-border capital flows. The US Federal Reserve's brief interest rate hike in early 2018 triggered capital outflows from emerging economies, which in turn caused volatility in currency markets. The Federal Reserve has since reversed its course and lowered interest rates, while the European Central Bank hinted it will maintain an accommodative stance on monetary policy. This assurance has temporarily helped stem capital outflows from emerging markets, but risks persist in the case of future rate hikes. Furthermore, low interest rates have encouraged an enormous build-up in private sector debt, which puts into question whether the global financial system can withstand a recession.

5. The IFIs should be ready to act without repeating the mistakes that followed the last crisis and created the current backlash. The recovery from the global financial crisis is still incomplete due to these mistakes, particularly the IMF-led charge for a premature end to fiscal stimulus that was coupled with an assault on collective bargaining. In October of 2010, Global Unions expressed concern about IFI pressure to shift from stimulus to consolidation, warning that it would "endanger a fragile recovery and prolong high jobless rates".[3] A double-dip recession in Europe, years of high unemployment rates and a large increase in precarious work followed. For working people, the crisis has not ended. The myth of expansionary austerity – in which rapid fiscal consolidation leads to growth – was shattered as the Fund's growth predictions for countries implementing austerity were consistently adjusted downwards.

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[3] Global Unions, "Statement by Global Unions to the 2010 Annual Meetings of the IMF and World Bank Washington, 9-11 October 2010", <https://www.ituc-csi.org/statement-by-global-unions-to-the>.

A macroeconomic strategy for full and decent employment

6. A new IMF Managing Director can end the vicious cycle of austerity and deregulation, which has failed to deliver the promised economic and social results. These measures were key ingredients in the breakdown of social cohesion and trust, fuelling a dangerous backlash of nationalism and xenophobia. Labour market deregulation, along with attacks on public sector wage bills and minimum wages, is rooted in ideology rather than evidence. These measures hold back economic recovery by depressing demand, worsen the trend of falling labour share of income, and increase inequality. In recent years, the Fund endorsed the Sustainable Development Goals, expanded its research on inequality, and committed itself to promoting inclusive growth. IMF research has shown that many of the policies promoted by the Fund increase inequality. Despite changes in rhetoric, the IMF's recent loan agreements with Argentina and Ecuador are repeating the same patterns of the past and producing the same results.[4] Under the loan, Argentina financed capital flight while poverty, job loss and hunger soared. The economy and social spending suffered under the fiscal consolidation measures, and now Argentina must attempt to restructure its debt. The time is overdue for a multilateral sovereign debt workout mechanism that would provide an ordered and fair venue for restructuring, rather than the current ad-hoc process that enables vulture funds.

7. To fulfil its commitment towards inclusive growth, the Fund should support a macroeconomic framework rooted in achieving Sustainable Development Goal 8. This means prioritising full and decent employment as a direct goal, rather than an afterthought. Labour market deregulation and the weakening of collective bargaining has led to an increase in precarious employment, which stifles aggregate demand in the economy and negatively affects growth. Without appropriate institutions, being employed does not assure an escape from poverty. Building labour market institutions, focusing on national employment policies, preserving or strengthening centralised collective bargaining, and increasing investment would set in motion a virtuous cycle of policies that fuel inclusive and sustainable growth.[5] Education remains essential to ending poverty, economic and gender inequality, and to the achievement of a sustainable future. Having endorsed

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[4] ITUC, "Doubling Down on a Failed Approach: Argentina's IMF Programme, One Year Later", < https://www.ituc-csi.org/doubling-down-on-a-failed-approach-21683>.
Ibid., "The IMF returns to Ecuador", <https://www.ituc-csi.org/the-imf-returns-to-ecuador>.
[5] ILO, "Time to Act for SDG8: Integrating Decent Work, Sustained Growth and Environmental Integrity", 2019, <https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_712685.pdf>.

Sustainable Development Goal 4, the IFIs should support fulfilment of free, quality, universally accessible, and equitable public education.

Greater IMF focus on international corporate taxation and financial regulation

8. More can be done in the IMF's traditional domain of global economic stability and fiscal affairs, namely the promotion of action on international corporate taxation and financial regulation. The fractured landscape of international corporate taxation, fraught with tax havens and counterproductive competition on rates, hampers sustainable economic growth. It is deeply harmful for working people in developing countries, where lost revenue could enhance investment in robust public education and health systems.

9. The IMF has made a valuable contribution to the debate with a policy paper on corporate taxation in the global economy. The Fund should build on this with greater advocacy for comprehensive solutions. The convening role of the Fund can help build momentum for fair taxation of transnational corporations that have long profited from a race to the bottom and the ubiquity of tax havens. Policy advice to countries should consistently discourage corporate tax rates that are set to attract foreign investment by undermining other countries. More broadly, Global Unions call on the IMF to cease promotion of regressive taxation including value-added taxes. Instead, the Fund should support a financial transactions tax to reduce speculation. This tax would prevent the siphoning of money from workers' pension funds through transaction fees charged by fund managers engaged in excessive trading, and raise revenue for global public goods.

10. Risky behaviour in the financial sector is a threat to global economic stability, made worse by delays and reversals in regulation. Too-big-to-fail institutions could interact in dangerous ways with the economic headwinds. Shadow banking, non-bank financial institutions and under-regulated financial technology companies have grown precipitously since the crisis. The IMF should advocate for international and national oversight that promotes stability and leads to productive investment. Global Unions express concern about empowerment of the financial sector, including untested financial technology, in the name of development. In both advanced and developing economies, the Fund should focus on promoting responsible regulation.

Industrial policy for the transformation to low-carbon economies

11. IMF conditionality should not restrict investments in climate mitigation, adaptation and a just transition to a low-carbon economy. In addition to the repercussions of IMF conditionality for recovery and sustained growth, the continuation of current practices will limit the ability of countries to finance their Nationally Determined Contributions (NDC)

plans under the Paris Agreement. The current IMF approach over-emphasises carbon pricing, which unto itself is not adequate to drive economic transformation and an equitable just transition. Global Unions urge use of a broader set of interventions going beyond market mechanisms with limited efficacy, including financial sector oversight, regulatory measures and industrial policy for a low-carbon economy.

12. Long-term investments in the real economy will be necessary to transform economies and implement NDC plans. Useful measures concerning financial institutions are offered by the recent IMF climate strategies paper, such as oversight that includes sustainability in risk assessment and more consistent climate-related disclosures by financial institutions. Another promising area is government support for research and development. Global Unions encourage a more ambitious approach utilising industrial policy to drive a timely and just transition to a low-carbon economy, and welcome recent discussions of industrial policy at the IMF.[6] Targeted incentives for research and development are an important first step. This can be one part of a broader industrial transformation strategy, including in the finance sector and with regards to quality infrastructure, that is executed on the timeframe and scale necessary to avert a dual crisis of climate and the global economy.

13. Global Unions urge the IFIs to support integrated plans to finance emissions reductions toward the goal of a temperature increase not exceeding 1.5 degrees. The proposed approach to NDCs in replenishment of the International Development Association is encouraging, including support for financing implementation and a multi-stakeholder approach. The World Bank should continue to develop work on just transition alongside the design and implementation of NDCs, in both cases supporting tripartite taskforces empowered to create roadmaps for transformation and ensuring that all workers have collective bargaining rights. NDC implementation entails many changes that will affect local economies and employment, and workers must be part of decision-making.

Multilateral and public investment in resilience and timely crisis response

14. There is a growing focus on financial instruments and catastrophe bonds to manage the devastating effects of the natural disasters that will increase with climate change. Global Unions underline the deep interconnection of climate and public health, including increased heat-related occupational health and safety incidents, epidemics and health effects of natural disasters. The controversial World Bank bonds linked with the Pandemic Emergency Financing Facility offer valuable lessons. The bonds were launched to help

[6] IMF Working Paper No. 19/74, “The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy”, <https://www.imf.org/en/Publications/WP/Issues/2019/03/26/The-Return-of-the-Policy-That-Shall-Not-Be-Named-Principles-of-Industrial-Policy-46710>.

ensure finance in the case of another global public health threat such as the 2014 Ebola outbreak. The bonds proved to be a popular investment, but the Pandemic Emergency Financing Facility has provided relatively little for the burgeoning Ebola crisis in Central Africa. It has been hampered by disbursement criteria that have not been met despite the declaration by the World Health Organization of a global health emergency.

15. The primary World Bank contributions to help close the shortfalls in Ebola response funding have come from the traditional source of the International Development Association, notably including its Crisis Response Window. This mechanism was created in 2009 to better assist low-income countries facing economic crises, and later expanded to cover natural disasters and public health emergencies. Global Unions support the robust financing of mechanisms that support prevention, strong public health systems and timely responses. However, trade unions express concern about the use of complex financial instruments that can provide a false sense of preparedness while primarily benefiting investors.

16. The pandemic bonds demonstrate the limits of catastrophe bonds, particularly regarding the unpredictable nature of emergent threats, the consequent pitfalls of designing disbursement triggers, and the concern of profit-making in the name of assisting the vulnerable. A focus on bonds could deemphasise the financing of pandemic prevention and climate resilience, including the long-term creation of effective public health systems. Bonds and financial engineering are not shortcuts to funding resilience. Preventing and addressing catastrophes will require international governance reform and coordinated multilateral investment. This includes the backing of mitigation and adaption in developing economies by the advanced economies which are historically responsible for most emissions.

Policies to prevent gender-based violence and reduce gender inequality

17. Global Unions encourage the IFIs to systematically analyse the effect of policy advice and loan conditions on gender inequality. IFI loan conditionality and policy advice tends to support a damaging combination of public sector cuts and labour market deregulation. This approach is prominent in the World Bank's Development Policy Financing, in which loans support structural adjustment. In Turkey, a development policy loan led to the expansion of temporary work contracts in the name of boosting female labour force participation. In Serbia, Development Policy Financing led to massive reductions in the

public sector workforce. Meanwhile, policy advice from the IMF during a loan programme led to public sector wage cuts and a hiring freeze.[7]

18. The policies promoted by the IFIs should be orientated to women's economic security, including equal access to formal jobs with living wages, a safe and healthy work environment and fundamental labour rights. Strong labour market institutions and worker protections are pillars of gender equality. Employment protection legislation, for example, helps fight discrimination through unfair hiring and dismissal practices. Flexibilisation measures eliminate protections and enable precarious work arrangements that worsen job quality and redouble the problem of women and youth being concentrated in low-wage, insecure and unsafe jobs. The IMF should implement the how-to notes on gender and economic inequality in the design of all conditionality and policy advice on labour markets. Global Unions call on the World Bank to extend application of the Environmental and Social Framework to Development Policy Financing. This area of activity, comprising roughly one-third of the Bank's portfolio, is unnecessarily excluded from adherence to the safeguards on lending.

19. The new ILO Convention 190 is a roadmap to combat gender-based violence in the world of work. We encourage the Bank to work with the International Labour Organization and trade unions to bolster the prevention of violence and harassment at work through the measures outlined in the convention. It identifies interlocking methods to prevent, expose and remedy gender-based violence and harassment through law, employer procedures, collective bargaining and the constant involvement of workers and their trade unions. The World Bank should integrate Convention 190 into its policy advice for countries, including as part of commitments under replenishment of the International Development Association and in the prevention of gender-based violence on development projects funded by the Bank. Global Unions commend the creation of a good practice note on gender-based violence in the financing of major civil works. Drawing upon Convention 190, this work can be extended to all lending. Global Unions stress that freedom of association and collective bargaining rights for women workers must be at the centre of all efforts to prevent, expose and remedy gender-based violence and harassment on lending projects.

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[7] Bretton Woods Project, "The World Bank and gender equality: Development Policy Financing" August 2019, <https://www.brettonwoodsproject.org/wp-content/uploads/2019/08/The-World-Bank-and-Gender-Equality-DPF-2.pdf>.

Recommendations to reform the International Financial Institutions

The IMF and World Bank should:

- Support sustainable growth and inequality reduction by examining the effects of lending and policy advice on income, wealth, and gender inequality. Design alternative policy packages when proposed measures would increase inequality.
- Advance shared prosperity and the recovery of lost labour share of income by promoting living wages, collective bargaining and strong labour market institutions. End the promotion of labour market deregulation, decentralisation of collective bargaining and wage suppression.
- Verify the coherence of operations with the international labour standards of the ILO and Sustainable Development Goal 8.
- Provide investment and policy advice to build universal gender-responsive social protection including social protection floors, as part of a strategy to promote quality employment and transitions from the informal to the formal economy.
- 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.
- Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debt.

The IMF should:

- Rehaul conditionality and loan programme design, ceasing the promotion of policies that worsen economic decline. Support economic recovery with measures to boost aggregate demand, create employment, strengthen collective bargaining and increase public investment in the real economy.
- Facilitate global economic stability by encouraging financial sector regulation, particularly regarding shadow banking and too-big-to-fail financial groups.
- Promote rapid and full action on international corporate taxation, base erosion, and profiting shifting. Back measures including the automatic exchange of information, progressive taxation, and the introduction of financial transaction taxes to discourage speculative behaviour and create new sources of revenue.

The World Bank should:

- Systematically analyse the job quality outcomes of lending, beginning with the 19th replenishment of the International Development Association. Introduce thorough tracking of the development outcomes of the Private Sector Window to ensure that the redirection of funding delivers on sustainable development.
- Renew the twin goals. Define shared prosperity as income growth for the bottom 40 per cent at a faster rate than the national average, consistent with the Sustainable Development Goals. Measure and combat poverty based on the cost of living.
- Ensure full conformity with international labour standards in lending. Extend the Environmental and Social Framework to all lending operations including Development Policy Financing.