TIME FOR THE INTERNATIONAL FINANCIAL INSTITUTIONS TO REVERSE POLICIES OF AUSTERITY AND STAGNATION

Statement by Global Unions[1] to the 2013 Spring Meetings of the IMF and World Bank Washington, 19-21 April 2013

Introduction

1. Global unemployment will rise above 200 million in 2013, according to the International Labour Organization, adding 67 million to the global jobs gap since before the financial and economic crisis began in 2007. New downward revisions of the International Monetary Fund's economic forecasts show that the situation is particularly acute in Europe, where some countries have entered into their sixth successive year of recession. These prolonged recessions, which have raised unemployment rates above 25 per cent in some economies, are largely austerity-induced, as counties seek to meet deficit-reduction targets set as conditions for financial bailouts. The situation is also acute in some countries of the Middle East-North Africa region, which face rising unemployment, deficient social protection and financial difficulties. Negotiations for IMF loans in the region have particularly focused on the role of state subsidies and how they may be modified or replaced.

2. The IMF must recognize the policy implications of the repeated downward revisions of its growth forecasts that it subsequently explained by the use of faulty fiscal multipliers. Besides failing to end economic recession and stagnation, the policies are creating social upheavals and political instability in borrowing and non-borrowing countries alike. Putting greater emphasis on job-rich growth, improved social protection and respect of workers' rights would enhance the credibility of its advice and lending programmes. Fixing rigid deficit-reduction targets, especially when they are to be reached by making workers bear the overwhelming burden of adjustment, is both economically self-defeating and politically unsustainable.

3. This statement includes recommendations that both international financial institutions (IFIs) re-examine their policies under a "jobs lens" and take measures such that all their operations comply with international labour standards. It proposes that the World Bank should adopt an action plan for expanding social protection in developing countries. This statement also includes proposals for measures the IMF and World Bank should

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 174 million members in 156 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.

adopt to help build a private financial sector that supports the real economy and for steps the IFIs can take to assist in the coordinated adoption and implementation of financial transactions taxes in as many countries as possible.

Continued crisis and stagnation in Europe

4. On five occasions since September 2011, the IMF revised its quarterly global growth forecasts downwards for the following two years. In most cases, the downward revisions were principally due to sharper than predicted declines for Europe. The IMF chief economist's revelation at the October 2012 annual meetings of the IFIs that the Fund's forecasting models had under-estimated fiscal multipliers, and thus the size of the impact of fiscal consolidation policies, confirmed what Global Unions and many other critics of austerity policies have been saying since 2010.

5. The shift to austerity in 2010, only months after the worst economic crisis in eight decades, was unwarranted given the levels of unemployment and under-employment, premature in light of the fragility of the global economy, and ultimately self-defeating in terms of the objective of reducing public indebtedness levels. In many cases, the debts resulted from shifting liabilities incurred by the private financial sector to public balance sheets. Deficit-cutting measures, imposed as loan conditions or recommended as policy advice by the "troika" (IMF, European Commission and European Central Bank) in several European crisis countries, succeeded in intensifying the spiral of economic contraction that increased the weight of public debts relative to Gross Domestic Product.

6. After two years of positive growth in the whole euro area in 2010-2011, growth turned negative in 2012 and is forecast by the IMF to be slightly negative again in 2013. In some of the area's "periphery" countries, this year's decline of GDP is predicted to be several percentage points and some countries are engaged in a multi-year depression. Greece, for example, is expected to experience its sixth successive year of shrinking GDP in 2013. Unemployment now surpasses one quarter of the workforce in Greece and Spain, and is more than double that rate among young workers. The unemployment rate also continues to increase in most of the other euro-area economies.

7. One of the principal areas of focus of the IMF's loan conditions and policy advice in Europe has been labour market regulations and institutions. Economic research shows that labour market regulations can protect workers and achieve less unequal income distribution and generally have only an "insignificant or modest" impact on employment levels.[2] The IMF's own studies concede that in European countries labour market regulations are not nearly as important an obstacle to growth as factors such as deficiencies in legal systems, infrastructure, education and training, goods markets, financial markets and technology. They also find that carrying out deregulatory labour market reforms without boosting aggregate demand can worsen unemployment.[3]

8. However, in several European countries, reforms to labour market regulations and institutions have been a major feature of IMF loan programmes or, in non-borrowing

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[2] World Bank, *World Development Report 2013: Jobs*, October 2012, p. 261
[3] Barkbu et al, "Fostering Growth in Europe Now", IMF Working Paper, June 2012

countries, policy advice.[4] The recommendations or conditions have included reducing or freezing minimum wages, relaxing dismissal procedures and reducing severance pay, and weakening or dismantling national and sector-level collective bargaining arrangements. By depressing aggregate demand, such measures create higher unemployment almost immediately. Moreover, by weakening social dialogue mechanisms, they undermine possibilities of adopting measures through broad agreement to support recovery or mitigate the impact of downturns, such as the widespread use of reduced working time arrangements in Germany or other types of pro-employment policies adopted in the Nordic countries.

9. It is urgent for the IMF to support and promote an economic programme for recovery in Europe. The depression-era levels of unemployment in several European states require an urgent and massive response from the IMF and European Union institutions. **The IMF and its troika partners should make financial assistance available over a longer period and put an end to the destructive austerity conditionality to which countries have been subjected. The IMF and its troika partners should support countries' efforts to finance job-rich recovery strategies, protect workers affected by downturns and tackle rising inequality, rather than reducing labour regulations and social protection and weakening or dismantling collective bargaining mechanisms. The IMF should strongly support social dialogue in the countries affected by the crisis, recognizing the importance of multi-stakeholder dialogue for the post-crisis recovery.**

New IFI programmes in the Middle East and North Africa (MENA)

10. IMF lending agreements have been concluded in the past year with Jordan and Morocco, adding to an existing agreement in the MENA region with Iraq. Negotiations for new IMF loans are underway with Egypt and Tunisia. The World Bank has also developed new initiatives in the region, concluding new agreements to support projects in infrastructure, agriculture and social protection. However in several MENA countries the Bank's financial commitments have diminished due to an evident lack of consensus on long-term development strategies. Societies in the region face immense challenges, including growing unemployment, in particular among youth; deficient social protection programmes; inadequate public services; and long-standing practices of repression and corruption.

11. The IFIs' challenges in the MENA region are particularly complex due to the fact that their past policies in favour of privatization and reduction of the role of the state have been associated with some of the corruption and inequities of the period before the immense political changes that began in 2011. The IFIs frequently approved policies and practices that workers and ordinary citizens in those countries considered unjust endorsements of "kleptocratic" regimes. Some examples include the designation by the World Bank's *Doing Business 2009* of Egypt as one the world's "Top Ten Reformers" because of its pro-business policies, and the IMF board commendation in early 2011 of

[4] See ITUC, "Involvement of the International Monetary Fund in labour market reforms in European countries", February 2013

the previous regime in Libya for its "progress on enhancing the role of the private sector" and its "ambitious reform agenda" (IMF, *Public Information Notice No. 11/23*).

12. An important focus of the IMF in its negotiations for new loans in MENA has been to remove or reduce fuel price subsidies, based on the reasoning that they represent an important fiscal cost in some countries and have a regressive distributional impact. The reduction of fossil fuel subsidies can be beneficial to society and the environment, including for the mitigation of climate change, but should be accompanied by measures to develop clean energy access and compensate lower-income households for their real income losses. Trade unions have pointed out that **the reduction of energy subsidies can have immediate detrimental impact on low- and middle-income households unless comprehensive compensation programmes are put in place *before* changes resulting in price hikes occur**.

13. **The IMF should support the establishment of programmes in the MENA countries that expand public services and social protection measures, including cash transfer programmes with equal access for both men and women; provide assistance for job-creation for young workers; increase minimum wages, which are often very low; take measures to reduce gender wage gaps; and improve protection of workers' rights to organize and bargain collectively. These kinds of policies should be identified by the IFIs as absolute priorities, given the legacies of exclusion and denial of rights that have existed in the countries of the region.**

Re-examining IFI policies through a 'jobs lens'

14. An important finding of the World Bank's *World Development Report 2013: Jobs* (*WDR 2013*) was its identification of the centrality of labour market outcomes for development, hence the recommendation that development strategies should be re-examined under a "jobs lens". The *WDR 2013* also strongly affirmed that all employment must be subject to the rights conferred by the International Labour Organization's core labour standards[5] and supported by enhanced access to social protection.

15. Another important finding of the Bank's *WDR 2013* was that, contrary to the view propagated by the World Bank's *Doing Business* report and certain IMF publications, the IFIs' long-held fixation on labour market regulations as major impediments to growth was not substantiated by empirical evidence:

> "New data and more rigorous methodologies have spurred a wave of empirical studies over the past two decades on the effects of labor regulation…. Based on this wave of new research, the overall impact of EPL [employment protection

[5] 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).

legislation] and minimum wages is smaller than the intensity of the debate would suggest. Most estimates of the impacts on employment levels tend to be insignificant or modest." (*WDR 2013*, p. 261)

16. Rather than focusing on deregulating labour markets under the erroneous pretext that such policies are growth enhancing, **the IMF should:**

- **Modify fiscal consolidation plans so as to avoid worsening unemployment, especially in light of the Fund's discovery that it under-estimated the size of fiscal multipliers in times of recession.** Fiscal adjustment should be delayed or its pace slowed and, if needed, IMF financial assistance should be extended over a longer period until a sustainable recovery is in place.
- **Put greater emphasis on revenue-generating measures to achieve medium-term reductions of fiscal deficits,** rather than giving the principal role to public expenditure reductions as has been the case in most fiscal adjustment plans. Achieving deficit reduction primarily through spending cuts raises unemployment and inequality, and imposes a disproportionate cost on beneficiaries of social programmes, particularly women and the poor, and on public sector workers.
- **Encourage countries, when additional tax revenue is needed for medium-term deficit reduction, to adopt measures that have the least impact on employment levels and that reduce income inequality.** Preferred tax measures should include the replacement of "flat taxes" by progressive income taxes, carbon taxes, actions to prevent tax avoidance and evasion, measures to formalize informal economy activities and financial transactions taxes.
- **Commit to further joint work with the ILO in developing job-focused development strategies**, following up on three pilot projects carried out in Bulgaria, the Dominican Republic and Zambia. These three pilot experiences should be carried forward by implementing key lessons for job-rich growth in country programmes and policy advice, such as through industrial upgrading and diversification, and carrying out joint work on this theme in other countries.

17. **The World Bank should** likewise abandon the approach of weakening workers' protection in the faulty belief that this improves the business climate for investment, and instead should:

- **Encourage countries to increase public investments in key growth areas, particularly recognizing the importance of "green economy" and climate-related investments both for the environment and their employment-creation potential.** The Bank should support global efforts towards a Just Transition for workers in moving towards a sustainable green economy, putting into practice the conclusions of the major reports it has issued on the consequences and necessary policy responses to global warming, especially in light of the reports' findings that low-income populations will be those most affected.[6]

- **Pay special attention to protecting, promoting and funding quality public services such as health care and education.** Diminished public spending for education and training runs counter to the Millennium Development Goal of Education for All, and will hinder long-term economic and social development by leaving many children, young people and adults with insufficient and inadequate education. Lower spending on health care will significantly hinder global efforts to reduce the incidence of infectious diseases and achieve universal access to HIV/AIDS prevention and treatment.
- **Implement the policy conclusions of the *WDR 2013* by carrying out a review of investments under the jobs lens so as to ensure that the Bank's financial resources are properly employed to maximize decent work creation.** This should, for example, lead to a re-examination of certain investments made by the World Bank Group in extractive industries, which can have a net negative employment effect, and in the financial sector, to ensure that these institutions are engaged in real economy investments rather than speculative activities.

Needed: A World Bank action plan for social protection

18. Global Unions view the establishment of the One United Nations Social Protection Floor initiative as essential for the global effort to reduce inequalities and eliminate poverty. Expanded access to social protection also appears inherent to the World Bank's fundamental mission to combat poverty: a comprehensive, integrated approach to social protection must be a key component of any inclusive development strategy. Trade unions, along with many other civil society organizations, academics, UN agencies and the G20 have called on the World Bank and IMF to support the target of establishing social protection floors in all countries.

19. We note that the World Bank's *Africa Social Protection Strategy 2012-2022* contains welcome language regarding the need to avoid fragmented and duplicative social protection systems, as did the Bank's overall *Social Protection and Labor Strategy 2012-2022*. Moreover, the latter strategy stated that the Bank was a "strategic partner" in the Social Protection Floor initiative. However, it is crucial that the Bank follows through on these rhetorical commitments, and avoids fragmented approaches to social protection that even in the middle- and long-term will leave a significant portion of a country's population in poverty.

20. Neither the Bank's African strategy nor the overall social protection strategy puts forward concrete action plans demonstrating the Bank's intentions to engage in dialogue with governments and civil society organizations, including trade unions, regarding how and to whom coverage will be expanded, or timelines or targets for types of coverage to

[6] *Inclusive Green Growth* and *Turn Down the Heat* (World Bank, 2012)

be provided. We believe that such a plan is essential to demonstrate that in low-income and other developing countries the Bank is focused on, and accountable for, achieving results for all.

21. A key issue that requires further attention in the Bank's programmes is the continued discrimination women face in the labour market and elsewhere, as the *World Development Report 2012: Gender Equality and Development* demonstrated. Structural inequalities must be addressed through an approach that emphasizes the importance of decent work for women; the extension of labour laws so as to cover highly feminized sectors; the inclusion of early childhood education and care in equity strategies; the establishment of the social protection floor, which will be of particular benefit to women; improving women's and girls' access to and participation in education and training; increased public investment in basic health services including maternal, sexual and reproductive health care; and better policies for maternity protection. The Bank should assist countries in setting targets for equality in terms of outcomes for women, not only in terms of access.

22. The Bank's recent activities in the area of knowledge sharing and research into good practice concerning social protection are positive initiatives. However, further steps require concrete commitments from Bank country offices regarding their willingness to dialogue with governments, civil society and the ILO and to commit resources to analytical and other work necessary to integrate the expansion of social protection into national planning processes. **We strongly urge senior Bank management responsible for regional units to disclose how they plan to proceed in expanding social protection, especially in terms of coverage, so as to avoid fragmented, residual systems in developing countries.**

23. The IMF and ILO recently undertook joint work in three countries – El Salvador, Mozambique and Vietnam – to explore fiscal issues related to the sustainable establishment of social protection floors. This joint project resulted in important lessons learned regarding the financing of social protection schemes, and the integration of social protection into national planning processes. **We strongly urge the IMF to work with the ILO in helping establish social protection floors in the countries where proposals have been developed and to expand the joint work for financing social protection floors in further countries, consistent with the Fund's stated policies to address inequality and distributional issues.**

Protecting workers' rights in IFI operations

24. In 2012, both the World Bank's new *Social Protection and Labor Strategy* and the *World Development Report 2013: Jobs* strongly affirmed the importance of the core labour standards (CLS) in development.[7] CLS are the foundation of well-functioning labour markets and effective industrial relations systems that promote productive work and fair wages. Along with other international labour standards, for example in the area of occupational health and safety, they are central to an equitable distribution of income

[7]See Footnote 5

and to fulfilling the World Bank's mission of poverty reduction. **Beyond the important role the World Bank can play in the promotion of international labour standards, the Bank's most effective contribution is to make certain that its own operations comply with them.**

25. The Bank's private sector lending arm, the International Finance Corporation (IFC), has required since 2006 that client companies comply with CLS and other international labour standards as part of its Social and Environmental Performance Standards. They have also been applied by the Bank's Multilateral Investment Guarantee Agency (MIGA). IFC's revised performance standards, which went into effect in 2012, reaffirmed the importance for borrowing companies of respecting CLS and expand on some other basic working condition requirements, such as occupational health and safety and workers' right to information. A strong majority of large private banks engaged in development project lending, known as the Equator Banks, have adopted the same standards.

26. Additionally, in 2010 the World Bank and the regional development banks jointly incorporated international labour standards clauses into their harmonized procurement of works documents, applicable to lending for major construction projects. However, the World Bank has taken no measures to ensure implementation of these clauses and they do not apply to small construction works or to non-construction projects financed by the other major lending and grant-giving divisions of the Bank, the International Bank for Reconstruction and Development and International Development Association.

27. In a report issued in 2010, the Bank's Independent Evaluation Group (IEG) underlined the inconsistency of practices across the World Bank Group (WBG) as regards labour standards: "The thematic coverage of the [IFC] Performance Standards is more relevant to the WBG's investment project portfolio than the policies in the current safeguards suite, due to the addition of explicit provisions on labor impacts, … There is no obvious reason to presume that community and labor impacts are not relevant to the Bank's portfolio". **In order to resolve the ambiguities and inconsistencies in the requirements regarding labour standards and their application, which the Bank's own IEG has highlighted, the World Bank must update its social and environmental safeguards to ensure that all its divisions respect international labour standards.**

28. **The revision of the World Bank's safeguard policies, which is scheduled to be completed in 2014, should include a safeguard on labour standards.** We note that the Bank's Approach Paper for the safeguards review has included labour and occupational health and safety as an "emerging area" that the Bank must address. The policy should require compliance with the core labour standards and properly adapted requirements such as those found in IFC's Performance Standards for other basic working conditions, namely the provision of information to workers on conditions of employment, retrenchment procedures, grievance mechanisms, occupational health and safety standards and supply chain standards.[8]

[8] For more detail see ITUC, *Labour Standards in World Bank Group Lending: Lessons Learned and Next Steps*, November 2011

29. The IMF should also be vigilant that its loan conditions and policy advice are consistent with international labour standards. The Fund has become heavily involved in labour market issues particularly in European countries, as demonstrated in a recent ITUC review.[9] In some countries, the IMF's advice appeared to recommend that governments contravene ILO conventions that they had ratified. Application of the recommendations, in some of the cases, resulted in a drastic reduction of the number of workers covered by collective bargaining arrangements. **Any advice proffered by the IMF in the area of changes to labour laws should be reviewed and vetted by the recognized international institution responsible for labour standards and their application, the ILO, as well be as submitted to tripartite dialogue on the national level.**

Building a financial sector that supports the real economy

30. The IFIs have a primary responsibility to contribute to the reform of the international financial system, since a stable financial system is a precondition for economic development and job creation. Banks have a crucial role to play by providing the financial intermediation between economic actors, or "real banking", but financial markets tend to create a systemic risk of market failure by favouring short- to medium-term risk-taking rather than long-term investment strategies. The recent financial crisis clearly demonstrated that the real banking function has been pushed aside by speculative investment banking to the detriment of bank customers, employees and the economy as a whole. This trend must be reversed in the interest of building a sustainable economy that can meet people's long-term needs.

31. The largest private banks continue to make record profits while cutting tens of thousands of jobs. The financial sector's business expectations are unrealistic, seeking a rate of return on equity that is double what it earned three decades ago. The IFIs need to use their influence and leverage to force the private banks to lower their profitability targets and invest in real jobs. **The World Bank and IMF should apply strict conditions in their recovery plans when they imply rescuing financial institutions that aim to return to exorbitant profit levels by taking highly speculative risks and dismissing many of their own employees. When the IFIs financially support individual commercial banks, for example through the IFC, priority should be given to banks that invest their capital in the real economy and job creation rather than speculative investments.**

32. As member organizations of the Financial Stability Board (FSB) as well as in their own right, the IFIs must increase the pressure to adequately regulate the global financial system before a new crisis occurs. The measures should include:

- **Implementing reforms to rules and procedures so as to restructure the too-big-to-fail financial institutions, thus reducing real and immediate threats to public finances**
- **Curbing bonuses and other irresponsible and excessive financial sector remuneration plans and fully involving workers' representatives in**

[9] ITUC, "Involvement of the International Monetary Fund in labour market reforms in European countries", February 2013

creating and implementing remuneration policies based on appropriate incentives

- **Establishing strong controls over the non-bank shadow financial economy, hedge funds and private equity firms**
- **Obligatory shifting of all forms of derivative trading to organized exchanges and restricting short-term trading strategies, including a permanent ban on naked short-selling**
- **Introducing "ring-fencing" mechanisms to ensure that the liabilities caused by speculative investment do not undermine the proper functioning of real banking activities of the same institution**
- **Eliminating commonly used tax avoidance and evasion schemes, including transfer pricing, tax arbitrage, and tax and regulatory havens**
- **Putting in place strict regulations on credit rating agencies so as to end the current oligopoly situation and limit conflicts of interest**
- **Providing consumers with protection against predatory lending and other abusive financial practices, fully involving employees in supervisory processes and establishing whistle-blower protections**
- **Supporting financial services that serve the real economy, such as cooperative banking, mutual insurance and public financial services**

33. A financial transactions tax (FTT), which several countries are currently in the process of adopting, would go a long way towards curbing short-term speculative trading, including high-frequency trading. Technical studies carried out by the IMF, UN agencies and European Union institutions have confirmed the feasibility as well as the revenue-generation potential of the FTT, and conclude that the effectiveness of the tax will be improved with international coordination. A major step forward took place in January 2013 with EU finance ministers' approval of the initiative of eleven member states representing two-thirds of the EU's GDP to establish a common FTT under an "enhanced cooperation" procedure. **Given the growing worldwide support for an FTT to finance job-intensive recovery programmes, public services and achievement of development and climate-finance goals, the IMF, World Bank and FSB should offer their assistance for an internationally coordinated implementation of the FTT in as many countries as possible.**

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