GLOBAL SLOWDOWN CALLS FOR REVISION OF IFI POLICIES TO BOOST JOBS GROWTH AND REDUCE INEQUALITY

Statement by Global Unions[1] to the 2016 Spring Meetings of the IMF and World Bank Washington, 15-17 April 2016

Introduction

1. Several downward revisions of the international financial institutions' growth forecasts, especially for emerging-market economies, resulted in 2015 having the lowest annual rate of economic growth since the recession year 2009. Further corrections are likely in light of recent developments. In addition, major parts of the world economy are now at the brink of zero inflation or even deflation. As a result, the global jobs gap that developed during the Great Recession will not only persist but will grow unless substantial policy changes take place. Global Unions urge the IFIs, and particularly the IMF to end support for austerity measures and labour market deregulation while largely ignoring problems of insufficient aggregate demand and not adequately addressing the continued drag created by a broken financial system. The detrimental policies should be replaced by a serious institution-wide focus on the creation of quality jobs, achieving the transition to a low-carbon future and reducing inequality.

2. The IFIs' recent attention to the damaging consequences of income and wealth inequality in analyses and public pronouncements is welcome, but it must be followed by serious action on an operational level. Current IFI practice on the issue can only be characterized as highly inconsistent. Analyses blaming the increase of inequality on diminished redistribution in fiscal policies and weaker labour market regulations and institutions co-exist with country-level policy recommendations and loan conditions to cut benefits to the unemployed, increase regressive taxes, reduce minimum wages and limit the scope of collective bargaining. The IFIs should support more progressive tax regimes, broader social protection coverage, strengthened collective bargaining and robust minimum wages as part of a coherent approach to achieve more equal income distribution.

3. The decision of the World Bank Group to focus more strongly on the creation of quality employment through the work of the "Jobs Group" that it created two years ago is

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 180 million members in 162 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.

a positive development. Particularly noteworthy is the publication in December 2015 of a report on labour market regulations that, for the first time in a World Bank report on the topic, examines the evidence and cautions against the harm caused by under-regulation as well as the costs of excessive regulation. The ITUC has long urged the Bank to take a balanced approach to labour market institutions and standards, in contrast to the one-sided view that such regulations are nothing but an impediment to *Doing Business* as typified by the latter publication's now-suspended labour market flexibility indicator. Global Unions' statement also urges the World Bank to correct remaining weakness in the revised draft labour safeguard that it made public in 2015 and to work with its private-sector lending arm to implement a report released last year by IFC's ombudsman for improving the application of its performance standard on labour.

Measures for sustainable growth and reducing the global jobs gap

4. Since 2011, the IMF has systematically overestimated the rate of recovery of the global economy. Economic growth since 2010 has been gradually decreasing, contrary to *World Economic Outlook* projections. In 2012, the Fund's chief economist acknowledged that the IMF's forecasting model had used incorrect fiscal multipliers, leading to an underestimation of the negative impact of the austerity policies supported by the Fund. More recently, the IMF failed to predict the fall in commodity prices, erroneously expected that the oil price decline "dividend" would have a positive overall impact on global growth, and neglected to take account of the damage to growth caused by the wage-reducing structural reform policies that it has promoted. In November 2014 the Brisbane Action Plan announced, on the basis of IMF calculations which completely ignored aggregate demand effects, that G20 countries' collective growth rate would increase by 2.1 per cent by 2018 through structural reforms. The plan has been a manifest failure; instead of increasing, economic growth has been falling.

5. Lower commodity prices and the start of interest rate increases in the US have hastened the flow of capital out of emerging and developing economies and affected economic growth in those regions. Although increased global growth rates will not automatically resolve the high levels of unemployment and under-employment existing in many countries, a steady and sustained period of economic growth is a necessary ingredient for eliminating the jobs gap that developed following the global financial crisis and recession of 2008-2009.

6. Although some IMF reports last year declared the jobs crisis to be over, analyses produced by the International Labour Organization demonstrate that the jobs gap created during the 2008-2009 crisis remains. These analyses show that labour force participation rates remain substantially below pre-crisis levels and could decline further, due in part to long-term unemployed who have ceased active job search. Moreover, according to the ILO, "the global economic slowdown that occurred in 2015 is likely to have a delayed impact on labour markets in 2016, resulting in a rise in unemployment levels, particularly in emerging economies" (*World Employment and Social Outlook – Trends 2016)*.

7. In many high-unemployment countries, the IMF has blamed "over-regulated" labour markets for economic stagnation and has focused policy recommendations and loan conditions on weakening collective bargaining and reducing minimum wages and other

protections. This, in spite of the fact that studies produced by the Fund's own research department have been unable to demonstrate with any consistency that such measures are growth enhancing. For example, a chapter in the IMF's April 2015 *World Economic Outlook* on potential output growth identified product market reforms and increased investment in information technology as among the factors that could significantly increase potential growth. "In contrast," according to the WEO, "labour market regulation is not found to have statistically significant effects on total factor productivity."

8. Recent OECD research has additionally warned of the likely recessionary impact of structural reforms that reduce wages: "Downward pressure on wages may not be as rapidly compensated by employment gains" during downturns, leading the organization to conclude that reforms aimed at reducing wage costs are more likely to depress demand. The OECD considers this to be especially true in cases where the economy is close to the zero interest rate bound, with the result that reforms that squeeze wages will push up real interest rates, thereby "further depressing rather than stimulating … aggregate demand" (*Going for Growth*, 2016).

9. Although the impact in borrowing countries has yet to be determined, the World Bank has taken a more constructive approach toward the need to create quality employment by creating a "Jobs Group" in 2014. This decision followed its *World Development Report 2013*, whose central recommendation was for Bank-financed activities to be assessed through a "jobs lens" to ensure they contribute to creating good jobs for development that respect fundamental workers' rights. One of the findings of the WDR 2013 was that in most cases labour market regulations have only "insignificant or modest" impacts on employment levels, thus contradicting the long-held assumption propagated by *Doing Business* until 2009, and still dominant in many IMF approaches, that labour regulations are a major impediment to growth. The Bank followed up on this finding by publishing *Balancing Regulations to Promote Jobs* in December 2015. The report defends the need for adequate levels of protection and regulation in four areas – employment contracts; minimum wages; dismissal procedures; severance pay and unemployment benefits – and stresses the importance of consulting social partners and involving the ILO in their design. Global Unions encourage the Bank to implement the recommendations of this report.

10. To respond to the global economic slowdown and avoid the rise in unemployment predicted by the ILO, the IMF and World Bank should support and help implement a global strategy hinged on the recovery of wages and investments in public social and physical infrastructure. It may be noted that the OECD's interim economic forecast published in February 2016 emphasized that a coordinated public investment stimulus will improve the sustainability of public finances by allowing economies to grow out of debt. A modelling exercise prepared for the "Labour 20" to evaluate the impact of a policy mix of coordinated wage increases and public investment stimulus showed that such a scenario could create up to 5.8 per cent more growth in the G20 countries in the next five years.[2] A wage- and public investment-led recovery strategy would also help to attain objectives of countering

[2] The scenario consists of policies in G20 countries to raise public investment in social and physical infrastructure by 1 per cent of GDP in each country and to increase the share of wages in GDP by 1 to 5 per cent depending on the country: L20, *The Case for a Coordinated Policy Mix of Wage-led Recovery and Public Investment in the G20*, September 2014 (http://www.ituc-csi.org/IMG/pdf/modeling.pdf)

deflation, reducing inequality and achieving social, environmental, fiscal and financial sustainability.

Developing a consistent approach on inequality within the IFIs

11. Ever since the theme of income and wealth inequality began receiving broad attention through the "Occupy" and other popular movements in 2011, the IMF and World Bank have paid greater heed to the issue in public pronouncements and publications. For instance, the Bank adopted a new organizational strategy in 2013 that made reduction of inequality – specifically "boosting the bottom 40 per cent" – one of its stated priority goals. On an analytical level, that year's *World Development Report* on jobs determined that higher minimum wages, some employment protection regulations and increased trade union membership are associated with lower inequality.

12. The causes of and problems created by increased inequality have also been addressed by several recent IMF research papers, leading to findings such as the following:

- Countries with lower inequality have higher and more durable growth, justifying more redistributive economic and social policies ("Redistribution, Inequality and Growth", February 2014)
- In most countries, fiscal policies have become less redistributive over time and thus have contributed to increased income inequality ("Fiscal Policy and Inequality", March 2014)
- Labour market deregulation leads to increased inequality at median levels of income but also at the extremes, "likely reflecting the fact that labour market flexibility benefits the rich and reduces the bargaining power of lower-income workers" ("Causes and Consequences of Income Inequality: A Global Perspective", June 2015)
- Declining rates of trade union density and collective bargaining coverage are the main drivers of increased inequality in many countries ("Inequality and Labor Market Institutions", July 2015)

13. While both IFIs have been weak in following through on an operational level on the findings of their own research as to the causes and impacts of inequality, the inconsistency between research and rhetoric on the one hand and actionable policy proposals and conditionality on the other is particularly pronounced at the IMF. The Fund's loan conditions and policy advice, most notably in Europe, have contributed to weaker protections for workers, lower incomes for wage earners including those at the minimum wage and sharp declines in collective bargaining coverage. At the same time, the application of fiscal austerity measures has led to reductions in payments such as unemployment or early retirement benefits for those who lost their jobs, and to heavier taxes that fall disproportionately on lower-income people, for example increased value added taxes.

14. In some developing countries, the IMF has also urged governments to weaken labour regulations or discouraged them from taking measures that would bring deficient labour laws into compliance with ILO standards. One such example is Chile, where the government has been engaged in a legislative process aimed at correcting years of

insufficient protection of workers' rights that have contributed to the country showing the most unequal income distribution among OECD members. In its latest Article IV Consultation report for Chile (August 2015), the IMF urged the government to maintain restrictions on the right to strike dating from the Pinochet dictatorship that considerably weaken trade union power and contravene ILO fundamental rights conventions.

15. At the World Bank, a report issued in 2014 that described actions for implementing the organizational goal to reduce inequality included the recommendation that labour markets needed to be made "more flexible" in all circumstances, flying in the face of the WDR 2013's finding that weaker minimum labour standards and institutions, i.e. more flexible labour markets, contribute to increased inequality. The World Bank's endorsement of the UN's Sustainable Development Goals and its announced intention to take part in monitoring and attainment of the SDGs provide an opportunity for the Bank to contribute more positively to inequality reduction, particularly in the Bank's client countries.

16. As a qualitative progression from the earlier Millennium Development Goals, the UN has proposed that the SDGs include indicators that have a direct bearing on income distribution. These include the percentage of the population covered by social protection and health care, the proportion of informal economy workers, the unemployment rate, compliance with ILO fundamental rights conventions and labour share in national income. The SDGs also include targets on the completion of free, equitable and quality primary and secondary education for all girls and boys and an increase in the number of youth and adults who have relevant skills, including technical and vocational skills, for decent jobs.

17. The World Bank could make valuable contributions to attainment of the equality targets of the SDGs by providing policy advice and support to countries that make progress in all of the areas deemed important for these goals. Some of these areas will require that the Bank take steps to support on a country level measures that it has endorsed globally, such as universal social protection and health care coverage. It also needs to make progress to support improved regulations and their enforcement, such as in the area of workers' rights. The required actions go beyond the fiscal measures on which the Bank has focused exclusively in its first reports concerning attainment of the SDGs, for example the publication *Trajectories for Sustainable Development Goals: Framework and Country Applications* (December 2015).

18. Both the IMF and World Bank should develop consistent and coherent approaches within their institutions towards reducing income and wealth inequality in member countries. Both IFIs must further ensure that their country programmes, projects and policy advice are compatible with the objective of prioritizing employment creation and reducing inequality.

Implementation of a robust World Bank labour safeguard

19. Global Unions have urged the World Bank to require that its projects are in compliance with the International Labour Organization's core labour standards (CLS) starting in 1998, when it became a *de facto* condition of ILO membership for countries to

adhere to the standards. Other multilateral development banks preceded the World Bank by requiring that the activities they finance comply with the CLS, as well as minimum occupational health and safety requirements, obligations to provide information to workers and some other working conditions.[3] Trade unions, other civil society organizations and many governments urged the World Bank to adopt labour standard requirements as part of the review and update of its Environmental and Social Framework, commonly known as safeguards, that it began in 2012. A first draft of the new framework was made public in July 2014.

20. In August 2015, the Bank released a second draft of its proposed new safeguards policy that followed extensive consultations on the first proposal. The revised draft of the labour safeguard contained many improvements on the version released a year earlier, which those who had supported the adoption of a labour safeguard criticized for its serious flaws. For example, the first draft had excluded contract or sub-contracted workers from any protection, even though this category of workers may be particularly subject to abuse and often constitutes the vast majority of workers in Bank-financed infrastructure projects. The draft of August 2015 included coverage of these workers.

21. However, some important weaknesses remain in the most recent draft labour safeguard. Chief among these are the lack of any reference to the ILO standards upon which the CLS are based and insufficient protection of workers who exercise their freedom of association against acts of discrimination or reprisal. In both these areas, the latest draft does not meet the standards of the labour safeguards adopted by other development banks. The ITUC and its Global Unions partners submitted written suggestions to the World Bank for correcting the remaining flaws and presented them during the last round of public consultations that ended in March.[4] They also called on the Bank to adopt effective means and procedures for implementing the new safeguard and monitoring its application.

22. Global Unions have urged the World Bank's private-sector lending arm IFC, which has applied "Performance Standard 2: Labor and Working Conditions" (PS 2) as a borrowing requirement since 2006, to implement the recommendations of a May 2015 investigation report issued by its Compliance Advisor Ombudsman. The CAO report, which concerned a loan made to a Colombian borrower, found fault with IFC for proceeding with loan disbursements despite having corroborated information it received more than a year before from trade unions and the ILO showing that the firm's labour practices were in clear violation of PS 2. The CAO also criticized IFC for not compelling the firm to divulge assessments and action plans concerning its labour practices, thus contravening disclosure obligations that are part of IFC's social and environmental standards policy. Global Unions call on IFC to improve its loan approval, monitoring,

[3] The African Development Bank, European Bank for Reconstruction and Development and International Finance Corporation (IFC) have adopted comprehensive labour safeguards. They include the requirement that borrowers comply with the core labour standards, which are internationally-agreed fundamental human rights for all workers irrespective of countries' level of development that are defined by ILO conventions covering freedom of association and right to collective bargaining, elimination of discrimination in respect of employment and occupation, elimination of forced or compulsory labour, and effective abolition of child labour.
[4] "Revised draft of World Bank's proposed labour safeguard: Improved but flaws remain", August 2015: http://www.ituc-csi.org/revised-draft-of-world-bank-s

disclosure and disbursement procedures as recommended by the CAO in order to achieve full compliance with its labour standards requirement.

Global Unions' recommendations

Measures to support economic recovery

23. The IMF and World Bank should

- Support and help implement a global recovery strategy consisting of a policy mix of public investment stimulus and coordinated wage increases, and reverse recommended measures such as lower minimum wages, weakened collective bargaining institutions and reduced social protection

- Contribute, as part of this strategy, to public investments in energy-efficient infrastructure and in education and other quality public services including the care economy to improve long-term productive potential, and support the transition to a low-carbon economy including through the adoption of carbon taxes

- Oppose austerity measures and corresponding cuts in public spending in areas that provide social support, facilitate productive economic activity and provide the basis for stable government services, and support stabilizing public finances through greater tax revenues from higher incomes

Measures for creating decent work and reducing inequality

24. The IMF and World Bank should

- Ensure that the activities they finance comply with fundamental workers' rights, provide safe working conditions and adequate wages, and in particular the World Bank should adopt a comprehensive labour safeguard that requires compliance with the ILO's core labour standards

- Implement the recommendations made by the Compliance Advisor Ombudsman of IFC, the World Bank's private-sector lending arm, in a May 2015 investigation report concerning deficiencies in the application of "IFC Performance Standard 2: Labor and Working Conditions"

- End the promotion of labour market deregulation and, instead, help to reverse the rise in income inequality by supporting social dialogue, strengthened collective bargaining and robust minimum wages as part of a coherent set of labour market policies for more inclusive growth

- Ensure that women benefit from these policy actions to avoid a further deterioration of gender gaps in employment and income levels

- Help countries restore or establish fiscal policies that reduce inequality through more progressive tax regimes and increased coverage of social protection programmes

- Develop actions to contribute to attainment of the Sustainable Development Goals of the UN's 2030 Agenda, which includes targets on full and productive employment, protection of workers' rights, reduction of inequality, universal health coverage, universal primary and secondary education, and national social protection systems for all including floors

Measures for effective financial regulation and taxation

25. The IMF should

- Redirect its attention to its core mandate of contributing to a financial sector that is stable and supports growth by focusing country-level advice on issues of unregulated shadow banking systems, "too-big-to-fail" financial groups, under-taxation of the financial industry and lack of affordable finance to small and medium enterprises

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

- Promote stronger actions to counter the erosion of tax bases and achieve reform of taxation systems in order to move towards broader-based and more progressive taxes and to shift taxation from employment to environmentally damaging and non-productive activities

- Support stronger measures to ensure that fiscal revenue is not lost through tax havens by requiring automatic exchange of information and action to stop base erosion and profit shifting by multinational enterprises

- Support the introduction of financial transactions taxes to discourage speculative behaviour and create new sources of finance, including by offering assistance for the coordinated implementation of the euro-zone initiative for a comprehensive FTT in ten countries

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