IFI POLICIES MUST SUPPORT STRONGER LABOUR MARKET INSTITUTIONS AND INCREASED PUBLIC INVESTMENT

Statement by Global Unions to the 2016 Annual Meetings of the IMF and World Bank Washington, 7-9 October 2016

Introduction

1. The international financial institutions' systematic adjustments downward of their global economic growth forecasts show that they have failed to adequately take account of the contractionary impact of the austerity and deregulatory policies that they have promoted. Global Unions[1] urge the IFIs, and particularly the IMF, to end their support for austerity measures and labour market deregulation, to shift their actions to the real problem of insufficient aggregate demand and to address the continued drag created by a dysfunctional 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. Global Unions are concerned that the austerity and structural reform policies that led to a double-dip recession in Europe could be replicated in the Arab region, which recently overtook Europe as the largest recipient of IMF lending. In addition to calling for stronger labour market institutions that secure wage growth and reverse declining labour share in national income, the IFIs should support a coordinated strategy for a substantial increase in public investments. The IFIs' promotion of private-sector participation, for example through PPPs, not only in infrastructure projects but also essential public services such as education, can add to costs and delays, result in low-quality services and create sources of corruption. Global Unions urge the IFIs to abandon preference for private-sector involvement and instead offer serious support for needed public investments in services and infrastructure to achieve the Sustainable Development Goals.

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[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.

3. Finally, Global Unions call on the World Bank to work in close cooperation with the International Labour Organization and trade unions for the upcoming implementation of its new labour safeguard to ensure full consistency with recognized international labour standards. These standards have been developed by the ILO and were accepted by other multilateral development banks that preceded the World Bank in adopting labour safeguards. Needed implementation measures will include staff directives, preparation of training material and procedures for consultation on labour issues in new Bank-financed activities.

Consistently erroneous IFI growth forecasts reflect impact of austerity and structural adjustment

4. Since shortly after the global financial and economic crisis of 2008-2009, the IMF and World Bank have consistently over-estimated the economic growth predictions they issued. The systematic over-estimation began in 2011 at the time of the shift to austerity adopted by the G20 and supported by the IMF. In 2012, the IMF's research department blamed the use of incorrect fiscal multipliers, which did not properly measure the full damages caused by fiscal consolidation policies, for the Fund's inaccurate forecasts in Europe, but the errors have continued.

5. Neither the IMF nor World Bank foresaw the commodity price collapse of 2014 and both incorrectly predicted that the price decline would subsequently boost global growth through an "oil price dividend". Instead, the IFIs' research departments have struggled to explain declining growth among both commodity-exporting economies and those, whether advanced or developing, dependent on commodity imports. Recently, an IMF note on "Global Prospects and Policy Challenges" delivered to the G20 Summit in China in September acknowledged that the G20 strategy adopted in 2014 to add 2 per cent to GDP growth by 2018, which was supported by IMF projections, has been a failure. The year 2016 could register the weakest rate of global growth since the year of the "Great Recession", 2009.

6. An important reason why the IFIs' forecasts have been over-optimistic over the past five years has been the evident failure of their growth models to fully account for the contractionary effects of the austerity and structural reform policies that the IFIs have endorsed. These policies have depressed aggregate demand and are a major cause of, for example, the double-dip recession that the euro area entered into at the start of 2012. The imposition of strict austerity measures in fiscal policy were combined with labour market deregulation measures that depressed wages and further compressed aggregate demand. The combined effect of such policies has been to reduce the wage share in national income and increase income inequality.

7. Even though IMF research has shown that increased inequality has a negative effect on economic stability and growth, in its country-level policy advice and conditionality the Fund continues to support policies that make distribution of income more unequal. The failure of the Fund to provide relevant analysis and appropriate policy advice has never been as clearly described as in the review carried out by the IMF's Independent

Evaluation Office of the Greek programmes.[2] The review identified in particular the Fund's failure to grasp and resolve the inherent contradiction between the strategy to improve competitiveness by pushing down wages and prices on the one hand, and the strategy to reduce debt/GDP ratios on the other.

Harmful effects of austerity and deregulation in Arab region and globally

8. Several examples of continuing support for austerity and inequality-increasing policies are found in IMF loan programmes in the Middle East and North Africa (MENA), the region that recently overtook Europe as the largest recipient of IMF lending. Since May, new loan agreements have entered into effect or are pending in Egypt, Iraq, Jordan, Morocco and Tunisia, joining an earlier programme in Yemen. A common characteristic of the conditionality in all of these loans is the emphasis on fiscal consolidation, i.e. austerity. Such policies will reduce growth and job creation in economies already negatively affected by the impact of military conflict and social or political upheaval. Many of these programmes also call for labour market reforms, although most do not yet contain detailed recommendations.

9. Workers' organizations in the MENA region, where weak labour market institutions and regulations prevail in most countries, are justifiably apprehensive that the IMF will press for the same types of measures that it promoted in Europe, that is, reduced minimum wages, easier dismissal procedures and a reduced role for collective bargaining. Such measures could exacerbate already existing problems of precarious employment, low wages and high income inequality in Arab countries.

10. A feature of most recent IMF programmes in MENA has been measures to increase "targeting" of social programmes with the principal aim of reducing their costs, which inevitably result in increased hardship for many working people and unemployed. Income eligibility thresholds are often fixed at levels that render even some low-income households ineligible. Additionally, imperfect mechanisms for identifying and providing benefits to those deemed admissible, especially in countries with limited administrative capacity, mean that many who theoretically should receive benefits get nothing. Tunisia's IMF loan programme that ended in December 2015 promised to extend a "well-targeted social safety net" to compensate higher prices for the poor due to the phase-out of a universal subsidy programme. However, social spending was actually 14 per cent below the floor defined as a Quantitative Indicative Target. A loan review document blamed the shortfall on "issues in delivery mechanisms". The IMF review does not assess how much these "issues" contributed to increased poverty and inequality in Tunisia, but it does remark positively on the government's success in keeping overall public spending below the ceiling set in the IMF programme, due in part to the lower social spending.

11. Global Unions call on the IMF and World Bank, as they did to G20 leaders meeting in China in September, to recognize that the dominant policy mix of "loose but ineffective monetary policy combined with contractionary fiscal policy and structural weakening of

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[2] Independent Evaluation Office of the IMF, *The IMF and the Crises in Greece, Ireland and Portugal*, July 2016

collective bargaining is not working".[3] Instead, the IFIs should support urgent demand-side measures. This would entail ending the promotion of austerity policies, supporting stronger labour market institutions that secure wage growth so as to boost the labour share in national income, and offering support for a coordinated strategy to substantially increase public investment. The last should include needed investments in infrastructure, including those to meet commitments of the Paris agreement on climate change while ensuring a just transition for workers; development of the care economy; and actions to support the integration of migrants and refugees in receiving countries.

Stop wasteful promotion of private involvement in infrastructure and education

12. In measures to support a boost in public investment as part of a strategy for global recovery, the IFIs should abandon efforts to give priority to private sector influence over such investments, such as through "public-private partnerships". PPPs continue to receive preference in many IFI approaches, as illustrated by the World Bank's creation in 2014 of a PPP division as one of the Bank's five "Cross-Cutting Solutions Areas". Attempts to involve the private sector through PPPs have frequently added to costs and delays, resulted in inferior-quality or unaffordable services, and can create important sources of corruption. The Bank's own analyses demonstrate that interest in PPPs by many client-country governments has been waning, particularly as regards private participation in infrastructure (PPI) projects. The Bank's most recent "Global PPI Update" shows a substantial decline in PPI commitments as a proportion of GDP; the fall would have been much sharper had it not been for one massive PPI commitment in 2015, Turkey's new IGA airport. However, the declining success has not led to a revision of strategies to promote PPPs.

13. The World Bank Group's promotion of private-sector approaches also continues for the delivery of essential public services, such as education. The investments in private education are carried out by the IFC, the private-sector arm, and have been endorsed by Bank leadership at the highest level. The IFC has made its investments for the most part in low-fee, for-profit schools in more than 25 developing countries. The UN Committee on the Rights of the Child has strongly criticized financial support from international development agencies to such businesses: A "rapid increase in the number of such schools may contribute to sub-standard education, less investment in free and quality public schools, and deepened inequalities … leaving behind children who cannot afford even low-fee schools."[4] The UN committee called on international donors to assist instead in the attainment of universal education goals by supporting free and quality education in public schools.

14. Equally problematic in the education sector has been the Bank's promotion, in its "knowledge products", of approaches that seem to have a private-sector management inspiration even when applied to public education. They include performance-based incentives, use of contract teachers and so-called school-based management, which can

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[3] "L20 Statement to the G20 Summit" (http://www.tuac.org/en/public/e-docs/00/00/12/6A/telecharger.phtml?cle_doc_attach=6452)

[4] As quoted in "IFC pushed private education investment model criticised by UN", *Bretton Woods Observer,* Summer 2016

open the door to patronage-based recruitment of unqualified teachers. In contrast, improving the quality of teachers through training or hiring standards is generally given short shrift while teachers, and particularly their unions, are frequently portrayed as obstacles to overcome rather than as agents for delivering quality education. In an analysis of the World Bank's policies on teachers, Education International found that such approaches were only applied to a limited extent in the Bank's lending programmes, implying that both clients and Bank officials on the ground were sceptical of the feasibility of "policies designed by the WB intelligentsia from the Washington DC headquarters."[5]

15. The Sustainable Development Goals, adopted by the United Nations in 2015 and endorsed by the IFIs, include targets on the completion of free quality primary and secondary education for all and increasing the number of youth and adults who have relevant skills for decent jobs. The World Bank should focus on this objective rather than supporting private sector initiatives or approaches inspired by them in its education programmes. Both IFIs should also contribute to attainment of the equality targets of the SDGs. This will require measures to increase the percentage of the population covered by social protection and health care; to increase the proportion of workers in the formal economy and of the wage share in national income; and to comply with the fundamental rights conventions of the International Labour Organization.

Implementation of the World Bank's new labour safeguard

16. After four years of preparation, deliberation and consultation, in August the World Bank adopted a new Environmental and Social Framework (ESF) that, for the first time in its public sector lending, includes a requirement to comply with *Environmental and Social Standard 2: Labour and Working Conditions* (ESS 2). This standard provides for minimum occupational health and safety requirements, obligations to provide information to workers and other basic working conditions, and a requirement to respect certain fundamental workers' rights. Investments from the Bank's private-sector arm IFC have already been subject to a labour standards requirement since 2006, and some regional development banks adopted labour safeguards for all their lending in the past decade.

17. The Bank's introduction of a labour safeguard is an important development, but it is clouded by the fact in some aspects the Bank's version is weaker than those of the other banks, including the IFC. Principal among these is the absence of any reference to the core labour standards (CLS) conventions of the ILO, which prohibit discrimination, child labour and forced labour, and require respect for freedom of association and the right to collective bargaining. Whereas ESS 2 stipulates that the first three practices will not be tolerated in Bank-funded projects whether or not they are prohibited in the client country's law, it requires respect of freedom of association only "in a manner consistent with national law". This proviso is not only at odds with the requirements of the other development banks, but also contrary to the universal nature of the CLS as established by the ILO since 1998.

[5] Education International, *The World Bank's Doublespeak on Teachers: An Analysis of Ten Years of Lending and Advice*, 2016 (http://download.ei-ie.org/Docs/WebDepot/World_Banks_Doublespeak_on_Teachers_Fontdevila_Verger_EI.pdf)

18. Bank officials have stated that the ESF was drafted so as to be "self-standing" and not dependent on standards developed in other institutions. Whether or not one accepts this logic, it should be an imperative for the Bank, as it works on implementation measures for the new safeguards, to ensure full consistency with the norms of the recognized international standard-setting bodies, including the ILO for labour. It would be a recipe for incoherence if the World Bank were to establish and apply specific requirements in areas such as climate change, pollution control or labour rights that diverge from those developed and applied by the institutions having recognized expertise in these matters. It will be incumbent on the Bank, as it creates staff directives, training material and consultation procedures for implementation of ESS 2, that it do so in full cooperation with the ILO and trade unions, which are the parties most informed about the impact of the Bank's projects and programmes on workers.

19. One area of particular importance for working cooperatively with the ILO and trade unions will be for the application of the provisions of ESS 2 for supply chain workers, which stipulate that suppliers to Bank-financed projects should not engage in forced labour or child labour nor tolerate dangerous working conditions. Contrary to the other banks' safeguards, ESS 2 unrealistically relies on the suppliers themselves, rather than the borrower or the Bank, to identify such unacceptable practices. Three years after the Rana Plaza tragedy in Bangladesh, an industrial accident in which more than 1100 workers were killed, the Bank must accept to create a practicable procedure whereby the Bank, working with trade unions and the ILO, can properly monitor risks of unacceptable labour practices among suppliers as required by ESS 2.

Global Unions' recommendations

Measures to support economic recovery

20. The IMF and World Bank should

- End recommending austerity and deregulatory measures that will only have the effect of pushing economies into recession, worsen unemployment and increase dangers of deflation by weakening labour market institutions

- Support and help implement a global recovery strategy aimed at boosting aggregate demand and consisting of a policy mix of public investment stimulus and coordinated wage increases to reverse the falling labour share in national income

- Contribute, as part of this strategy, to public investments in education, the care economy, water and sanitation and other quality public services, including actions to support the integration of migrants and refugees

- Support public investments in energy-efficient infrastructure and climate-change mitigation projects to protect against climate change damages, improve long-term productive potential, and support the transition to a low-carbon economy including through the adoption of carbon taxes

Measures for creating decent work and reducing inequality

21. The IMF and World Bank should

- 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 including through greater tax revenues from higher incomes, and increased coverage of social protection programmes

- Develop actions to contribute to attainment of the Sustainable Development Goals, which include 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

22. The World Bank should

- Ensure that the projects and programmes that the Bank finances respect fundamental workers' rights and provide safe working conditions and adequate wages, and work jointly with trade unions and the ILO in the implementation of the recently-adopted *Environmental and Social Standard 2: Labour and Working Conditions* to ensure that Bank-funded activities comply fully with recognized international labour standards

- Put into action the recommendations made in May 2015 by the IFC's Compliance Advisor Ombudsman in an investigation report concerning deficiencies in the application of *IFC Performance Standard 2: Labour and Working Conditions*

Measures for effective financial regulation and taxation

23. 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 comprehensive FTT initiative supported by several Eurozone countries

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