THREE YEARS OF DESTRUCTIVE AUSTERITY AND LABOUR MARKET DEREGULATION ARE ENOUGH

Statement by Global Unions[1] to the 2013 Annual Meetings of the IMF and World Bank Washington, 11-13 October 2013

Introduction

1. The IMF has once again substantially modified its earlier global economic growth prognoses. Erroneous assessments of the fragilities of all major emerging economies in 2013 have added to the faulty fiscal multipliers of 2012. Scenarios which grossly underestimated the recessionary impact of austerity policies have been discredited, as have those that expected the developing world to be the locomotive that would pull the rest of the global economy into sustained growth. It is high time for the IMF and World Bank to support a genuine global recovery strategy through targeted actions to bolster aggregate demand and increase employment. Instead of promoting destructive and inequality-enhancing labour market deregulation, the Fund and the Bank should support a coherent set of labour market policies for more inclusive growth, and help small and medium enterprises obtain the financing that they need to create jobs.

2. This statement proposes that the World Bank and IMF should take actions for implementing the global social protection floor; support investments in infrastructure, education and quality public services; and support transition to a low-carbon economy. Both institutions have a role to play in countering the erosion of tax bases and move toward more progressive taxation. The Bank should take measures to implement the important recommendations of its *World Development Report 2013: Jobs*, notably for assessments of all Bank programmes on their employment impact, and those of the *Independent Panel Review of the Doing Business Report*. The Bank should use the opportunity of its current review of social and environmental safeguard policies to catch up with other international financial institutions and adopt a comprehensive labour standards safeguard.

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

From three-speed recovery to one-speed stagnation

3. The IMF's downward revision of its global economic growth forecasts in July 2013 was the sixth successive reduction of previous quarterly forecasts. In contrast to the earlier revisions, mostly due to sharper declines in Europe, the biggest adjustments downward in July were for large emerging economies such as Russia, China, Brazil and South Africa. Increasing economic difficulties in India, Indonesia, Turkey and other countries due to large financial outflows will likely entail further revisions to the IMF's economic forecasts.

4. The slowdown in major developing countries will, at the least, oblige the IMF to set aside its "three-speed recovery" scenario, in which dynamic emerging economies were supposed to act as the motor of the global recovery while advanced economies sorted out their economic problems. Austerity and structural adjustments programmes in Europe were rationalized in part by the Fund's expectation that strong demand for European exports would materialize once European countries reduced costs and became more competitive. The revelation over the past year that the IMF's forecasting models under-estimated fiscal multipliers, and thus the negative impact of fiscal consolidation policies, already undermined the credibility of the Fund's recovery scenario. The collapse of growth rates in large emerging economies does so further.

5. There appears to be a belated recognition on the part of the IMF and its European "troika" partners (European Central Bank and European Commission) that the austerity agenda imposed starting in 2010 through a strict schedule of fiscal consolidation, even in countries undergoing sharp economic contraction, was premature and ultimately self-defeating. Not only did these policies contribute to the euro-zone falling into a double-dip recession, but because of shrinking government revenues none of the crisis countries was able to meet their deficit target. The IMF and its troika partners have finally accepted to delay the attainment of deficit-reduction objectives in European countries in light of the deleterious impact of previous targets.

6. The extension of deficit targets does not mean that austerity has gone out of fashion in official circles, in Europe or elsewhere. Research based on IMF reports has revealed that 119 countries out of 181 examined were engaged in fiscal contraction in 2013, and 131 countries, covering close to 90 per cent of the world population, planned to do so in 2014.[2] The application of austerity policies simultaneously with the fall of prices of many commodities and with capital outflows set off partly by expected changes in US monetary policy, risks accentuating the growth slowdown that has begun in many developing countries.

Slow recovery means more unemployment and under-employment

7. The *World of Work Report 2013* published by the International Labour Organization (ILO) in June noted that the majority of developing and emerging countries had posted employment gains in the past three years, but that global unemployment would nevertheless reach 215 million in 2015 – up from 200 million in 2013 – because of

[2] Ortiz and Cummins, "The Age of Austerity – A Review of Public Expenditures and Adjustment Measures in 181 Countries", South Centre, March 2013

recession and slow growth in advanced regions. Unemployment rates are significantly higher than average for certain groups, such as young workers. The recent downturn in large emerging economies will make the global employment situation even worse and will also hamper efforts to resolve long-standing problems of under-employment and informality in the developing world.

8. A recent ITUC poll carried out in 13 countries showed that, even before the latest downturn in emerging economies, almost half of the respondents (49 per cent) stated that they or someone in their family had experienced unemployment or a reduction of working hours in the last two years. Well over half of respondents, 58 per cent, stated that their family's income had fallen behind the increase in the cost of living. And fully 80 per cent responded negatively to the question: "Do you think your government has effectively tackled unemployment?"[3]

9. A deteriorating jobs market, in addition to constraints on social spending as part of the austerity agenda, could also accentuate the alarming increase in income inequality that has taken place over the past decade in most countries, with a few notable exceptions. The IMF and World Bank's Development Committee stated in its last communiqué, issued during the IFIs' spring meetings in April: "We recognize that sustained economic growth needs a reduction in inequality." IMF research has also underlined the importance of reducing inequality for stable and sustained growth.[4] Unfortunately, these important conclusions have often not been followed through in current IMF country programmes and policy advice, where the emphasis has been placed on reducing public expenditures and deregulating labour markets.

IMF's fixation on labour market deregulation

10. The IMF's emphasis on labour market "flexibility" as an institutional objective is particularly incomprehensible in light of its stated commitment to inclusive growth. A recent IMF policy paper attributed Fund staff's frequent and repeated promotion of labour market deregulation to the "lingering effects" of a belief disseminated by the OECD two decades ago – unsubstantiated by subsequent research – that such deregulation is associated with increased growth.[5] The IMF concedes that this is an incorrect premise, not justified by research. It could also have acknowledged recent findings of the OECD and World Bank that not only does labour market deregulation generally have an insignificant impact on growth but, in most cases, it increases earnings inequality.[6]

11. In several European countries, weakening of labour market regulations and institutions has been a major feature of IMF loan programmes or, in non-borrowing

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[3] ITUC, *ITUC Global Poll 2013 - Economic and Social Outlook*, September 2013

[4] See for example: IMF, *Jobs and Growth: Analytical and Operational Considerations for the Fund*, March 2013, pp 24-31

[5] Ibid, fn 18, p 35

[6] OECD, *Divided We Stand: Why Inequality Keeps Rising*, December 2011; World Bank, *World Development Report 2013: Jobs*, October 2012

countries, policy advice.[7] The recommendations or conditions have included facilitating non-standard employment, reducing or freezing minimum wages, reducing employment security, weakening or decentralizing collective bargaining arrangements and weakening trade unions. By depressing aggregate demand, such measures create higher unemployment almost immediately, and by weakening protection for workers and diminishing their bargaining power, they contribute to the decline of labour's share of national income. 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 and other types of pro-employment policies.

12. Inequality within countries is also being accentuated by cuts in public services and transfer programmes that particularly affect those at low and middle incomes, even as progressive tax regimes are being eroded. The emphasis on public spending cuts rather than increased tax revenues in many of the crisis countries, some of which have received IMF loans and others which are highly responsive to the Fund's policy advice, is contributing to this trend.

Jobs, labour standards and social protection at the World Bank

13. The World Bank's *World Development Report 2013: Jobs* (*WDR 2013*) made an important contribution in identifying the centrality of labour market outcomes for development, hence putting forward 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 ILO's core labour standards[8] and supported by enhanced access to social protection.

14. The World Bank should implement the *WDR 2013*'s recommendation that all Bank-funded projects and activities be subjected to an assessment of their impact on employment. The Bank should also, in the course of its ongoing review and update of its social and environmental safeguards, adopt a labour standards safeguard which would ensure that Bank-financed activites comply with the core labour standards, provision of information to workers on their conditions of employment, retrenchment procedures, grievance mechanisms, occupational health and safety requirements and supply chain standards.[9] The World Bank has already been overtaken by some of the regional development banks and by its own private-sector lending arm, the International Finance Corporation, which require that borrowers comply with labour standards covering those areas.

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[7] See: ITUC, "Involvement of the International Monetary Fund in Labour Market Reforms in European Countries", February 2013; ITUC, *Frontlines Report*, April 2013; Hermann and Hinrichs, *Die Finanzkrise und ihre Auswirkungen auf Sozialstaaten und Arbeitsbeziehungen – ein europäischer Rundblick,* FORBA, November 2012

[8] Core labour standards are internationally-agreed fundamental human rights for all workers, irrespective of countries' level of development, that are defined by eight ILO conventions that cover freedom of association and right to collective bargaining; the elimination of discrimination in respect of employment and occupation; the elimination of all forms of forced or compulsory labour; and the effective abolition of child labour, including its worst forms.

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

15. The World Bank should implement key recommendations of the *Independent Panel Review of the Doing Business Report,* which were presented to the Bank's president in June. They include permanently deleting the controversial "Employing Workers Indicator" of *Doing Business*, which gave the best scores to countries with the lowest level of labour regulation and had already been suspended in 2009, and developing a new World Bank approach on labour market policy outside of the *Doing Business* project. The Bank should also implement the *Independent Panel Review*'s recommendation to eliminate the *Doing Business* "Total Tax Rate Indicator", which has given its best scores to countries requiring the lowest level of tax and social contributions from business and attributed the best ratings to tax havens and oil states.

16. The World Bank and IMF should intensify their work in promoting and implementing the social protection floor initiative. Both institutions have indicated support for the initiative, for example in the Bank's *Social Protection and Labor Strategy 2012-2022* and engaged in joint work on it with the ILO and other agencies. In May, the Bank's president delivered a speech expressing support for universal health care coverage; access to health care and other forms of social protection for all would entail achievement of the social protection floor objective. However it would require that the Bank put forward concrete action plans on a country level for achieving and financing expanded coverage, which have so far been lacking. Recent Bank strategies have in fact not promoted use of progressive taxes and adequate contributions from business to finance expanded social protection, even in contexts of very low levels of taxation.

17. The World Bank has produced two reports in its *Turn Down the Heat* series and on *Inclusive Green Growth*, concluding that low-income populations would be most negatively affected by climate change. The Bank should follow through on the important findings in these reports by increasing its support for green economy and climate-related investments. Its involvement should emphasize the need for a just transition for workers in moving towards a sustainable green economy. Both the IMF and World Bank should put forward solutions to ensure the needed level of investments, public and private, to achieve the transition. Equity issues need to be taken seriously, including measures such as improved public transit, expanded social protection and better wages for low-income workers to replace fuel subsidies. Workers' voice has a crucial role to play in a successful transition by helping to improve the innovation process in the workplace. The ITUC has proposed working with the Bank to explore these issues more fully.

Global Unions' recommendations

Measures to support economic recovery

18. The IMF and World Bank should:

- Promote, through their policy advice and financial assistance, targeted action to support aggregate demand and employment in those countries facing a serious slowdown in growth or slipping into recession;

- Oppose austerity measures and corresponding cuts in public spending in areas that provide social support, facilitate productive economic activity and provide the basis for functioning stable government services;

- Contribute to investments in infrastructure, education and quality public services including in the care economy to improve long-term productive potential, and support the transition to a low-carbon economy.

Measures for creating decent work and reducing inequality

19. The IMF and World Bank should

- Support active labour market programmes and schemes to promote job retention and job sharing until a recovery in employment growth is assured, as well as specific initiatives to create jobs for young people;

- End the promotion of labour market deregulation and, instead, help to reverse the rise in income inequality by supporting 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;

- Assess planned IFI-financed activities on their employment impact, and ensure that they contribute to creation of decent work, notably through the adoption of a World Bank labour standards safeguard;

- Develop action plans to support the implementation of a global social protection floor as developed by the ILO, endorsed by the UN and agreed at G20 meetings.

Measures for effective financial regulation and equitable taxation

20. The IMF and World Bank should

- Help improve the provision of affordable finance to small and medium-size enterprises, facilitate their insertion into global value chains, and ensure that they can provide decent work to their employees;

- Support fulfilment of commitments made by the G20 and Financial Stability Board to end “too-big-to-fail” groups by shielding retail commercial banking activities from volatile investment banking and market trading, regulate over-the-counter derivatives trading and shadow banking, and implement resolution frameworks;

- Promote stronger actions than those taken so far 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 shift taxation from employment to environmentally damaging and non-productive activities;

- Support stronger measures to ensure that 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 and implementation of financial transactions taxes (FTT) to prevent speculative behaviour and raise new sources of finance, and ban high-frequency trading.

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