IFI POLICIES FOR SUSTAINABLE JOB-CREATING GROWTH, REDUCED INEQUALITY AND RESPECT FOR WORKERS' RIGHTS

Statement by Global Unions[1] to the 2015 Spring Meetings of the IMF and World Bank Washington, 17-19 April 2015

Introduction

1. The reduction of international oil prices in the past several months has led to some upward revisions of global economic growth forecasts. Global Unions' statement to the April 2015 meetings of the international financial institutions (IFIs) cautions that any upturn could be slight and of short duration because problems of stagnant demand and high sovereign and household debt throughout the global economy have not been resolved, and could be accentuated if declining oil prices lead to more countries entering into deflation. The IFIs should seize the opportunity created by lower oil prices by encouraging the rapid adoption of carbon taxes, and using the revenues to finance energy-efficient infrastructures and other needed public services.

2. The IFIs should also take actions to ensure that they enunciate a consistent approach to the problem of the global jobs deficit and of increased income and wealth inequality. They should ensure that all of their policies and operations contribute to the creation of decent work and that recommendations on labour market policies do not contribute to further weakening of labour market institutions, which has been a significant cause of increased inequality. The statement urges the World Bank in its revised safeguards policy to correct the flaws in the draft labour safeguard issued in July 2014 by catching up to best international practices established at other multilateral development banks.

3. Global Unions' statement urges the IMF to focus more on its core mandate of contributing to financial services that are stable and support growth by addressing problems of unregulated shadow banking systems, "too-big-to-fail" groups, under-taxation of the financial sector, and lack of affordable finance to small and medium enterprises. Consistent with positions the IMF has taken in favour of restructuring unsustainable sovereign debts, the Fund should support countries that seek to achieve negotiated agreements with their creditors as well as the creation of a sovereign debt workout mechanism.

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[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 176 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.

Overcoming obstacles to durable growth

4. After reducing their global growth forecasts earlier this year, both the IMF and World Bank may reverse course because of the expected boost most countries' economies will get from lower oil prices. Any such correction is likely to be slight and of short duration, since the factors explaining the current slow growth that led the IMF to revise downwards several earlier forecasts have not changed. Economies around the world are affected by stagnant demand and high sovereign and private debts, whose weight will only increase if inflation falls further as a result of lower oil prices. In January 2015, 23 of the 28 European Union countries, which is the region most affected by economic stagnation, were already in price deflation compared to a year earlier. In addition, economies dependent on oil or other commodities whose prices are falling appear particularly vulnerable. The possibility of increased interest rates in the United States adds a further risk of a renewed bout of severe financial and economic instability if there is a surge of capital flows to higher-yield US bonds.

5. Unless appropriate policy measures are adopted, the decline in oil prices will do nothing to correct the serious underinvestment in public infrastructure and services or the failure of wages to keep up with productivity increases in most of the global economy. Lower prices for fossil fuels may even lead to a slowdown in investments in energy efficiency and renewables, which is one of the few sectors that has shown strong growth in recent years. They could also slow any progress made in reducing greenhouse gas emissions and thus further intensify the prospects of even more damaging climate change.

6. The IMF and World Bank, which have both supported the application of higher carbon pricing to slow the increase of greenhouse gas emissions, should seize the opportunity of lower oil prices to encourage the rapid adoption of carbon taxes, with the revenues used to finance energy-efficient infrastructures and other needed public services. A modelling exercise prepared for the "Labour 20" to evaluate the impact of a policy mix of public investment and coordinated wage increases shows that such a scenario could create up to 5.8 percentage points additional growth in G20 countries in the next five years.[2] By financing productive investments, such a strategy also increases economies' longer-run sustainable growth potential. L20's scenario would generate substantially more growth than the 2 percentage points' extra growth simulations for G20 countries carried out by the IMF and OECD, which depend on an implausible exogenous growth of aggregate demand.

Actions by IFIs on jobs and inequality

7. The latest global labour market data published by the International Labour Organization in its January 2015 *World Employment and Social Outlook - Trends 2015* show that five years after the end of the global recession, unemployment remains well above the pre-crisis level of 2007. The jobs gap is made even more acute by substantially lower labour force participation levels. The combination of higher open unemployment

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[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)

and lower participation translates into a global employment-to-population ratio of 59.7 per cent for 2014, which is exactly the same rate as in the global recession year of 2009 and a full percentage point lower than the 2007 ratio of 60.7 per cent. The jobs crisis that arose during the global crisis and recession of 2008-2009 is far from resolved. The situation is especially acute in some euro-zone countries where a quarter of the workforce is unemployed because the imposition of austerity policies intensified the impact of the financial crisis.

8. The IMF has produced several reports about the challenge of employment creation in recent years, including the 94-page *Jobs and Growth: Analytical and Operational Considerations for the Fund* published in March 2013. The report contains some useful findings, such as noting that "there is scope to improve the analysis and policy advice" provided by the IMF on job creation, and that "advice on labour market policies should … reflect that latest state of knowledge, and be evidence based about which combination of labor market institutions work well". It also cautions that the Fund's "traditional focus in macroeconomic and financial policies" means that agencies such as the ILO "may be better placed to advise" on labour market reforms.

9. However, there is little indication that the IMF has put this advice into practice on an operational level. If anything, the *Jobs and Growth* report's cautionary advice that reducing employment protection can cause a spike in unemployment, that unemployment insurance plays a crucial role in such contexts and that the Fund lacks expertise in labour market issues, seems to have been ignored. The Fund has become increasingly involved in the fine detail of labour market reforms that borrowing countries must adopt. In several euro-zone countries, the IMF supported measures to diminish employment protection simultaneously with substantial reductions of unemployment benefits.

10. Contrary to the World Bank, which in 2014 established a "Jobs Cross Cutting Solutions Area" to implement the *World Development Report 2013: Jobs* (WDR 2013) by evaluating Bank activities though a "jobs lens", the IMF has taken no action to ensure that job creation becomes a priority objective of Fund operations. Instead, the emphasis given to austerity and labour market deregulation measures indicate that objectives of fiscal discipline and deregulated economic activity remain at the forefront of the IMF's policy priorities as much as they did three decades ago.

11. Similar failings characterize the IMF's approach to the issue of inequality. In March 2014 the Fund issued a policy paper on *Fiscal Policy and Inequality* with some overly modest proposals – for example, it discourages increased taxes on wealth, dividends or capital gains on the pretext of "mobility of capital" – aimed at making fiscal policy more redistributive. Despite the fact that IMF research has shown that countries with lower inequality have higher and more durable growth (*Redistribution, Inequality and Growth*, February 2014), the IMF has rarely formulated country-level policy advice or loan conditions to explicitly reduce inequality.

12. Where the IMF has failed most singularly to take action to combat inequality is in its labour market policies. Global Unions' statements to the IFIs have frequently pointed out that the reduction of workers' protection and minimum wages and the weakening of collective bargaining institutions through IMF loan conditionality or policy advice have had the effect of increasing inequality. In countries such as Greece, Portugal and Romania,

IMF loan conditions have led to sharp declines in collective bargaining coverage. The diminished bargaining power of workers in those countries means that income inequality has increased directly because of the decline of labour's share of national income. It also has the important effect of eroding redistributive fiscal policies, since organized labour has been an instrumental force in promoting more progressive taxation, social programmes that benefit low-income people and social dialogue.

13. An article in the March 2015 issue of the IMF's magazine *Finance & Development* made similar points about the relative neglect of the weakening of labour market institutions in debates about inequality. Announcing a forthcoming IMF research paper, the article notes the important role played by minimum wages and strong trade unions in achieving more equal income distribution. It states that the research results "confirm that the decline in unionization is strongly associated with the rise of income shares at the top".

14. The World Bank's WDR 2013 similarly noted that inequality decreases during periods when union membership is increasing and rises when union membership is in decline. The WDR also found that higher minimum wages and some employment protection regulations are associated with lower inequality. Despite this, a World Bank report in 2014 for implementing the Bank's objective of boosting the bottom 40 per cent included the gratuitous recommendation that labour markets always need to be made "more flexible". This suggestion appears to reflect the deeply ingrained view of the Bank's *Doing Business* report, even though its controversial labour market flexibility indicator has been suspended since 2009, and neglects the fact that weakened labour market institutions and standards reduce labour income and increase inequality.

15. Both the IMF and World Bank should develop consistent and coherent approaches within their institutions on income and wealth inequality and in favour of the creation of decent work. 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.

Need for an international debt restructuring process

16. More than a decade after the IMF supported the establishment of a sovereign debt restructuring mechanism, the proposal was again brought to the fore in 2014 because of the success of so-called vulture funds in actions against Argentina taken in US courts. The funds, which had purchased distressed bonds at deep discount as speculative investments, were successful in obtaining court decisions that prevented the Argentine government from complying with debt restructuring agreements that it had concluded with 93 per cent of its creditors. The court decisions forced Argentina to renege on the agreements and pushed to country into technical default.

17. The absence of a framework for achieving binding restructuring agreements acts as an incentive for investors not to take part in negotiations for debt workouts. It also makes it more difficult for a country like Greece – whose public debt reached 175 per cent of GDP in 2014, up from 130 per cent in 2009 before it entered into its "Troika" loan agreement – to engage in discussions on debt restructuring or on the conditions for the reimbursement of a debt that has clearly become unsustainable. Greece lost 26 per cent of its GDP in

the past seven years, most of it since it began the Troika programme, and a quarter of the workforce is unemployed. The ITUC and Global Unions have joined with many other organizations in demanding that Greece should be given breathing space to rebuild its crisis-shattered economy before being obliged to reimburse its loans. Several analysts have recommended linking repayments to GDP growth.

18. The IMF should use its influence to hasten the creation of a sovereign debt workout institution, which could be established under the auspices of the United Nations or as an independent entity. The IMF endorsed the creation of a debt restructuring mechanism in the early 2000s until it dropped the idea due to opposition originating largely in the private financial sector. The Fund should give priority to assisting member countries that seek to put their economies onto a growth path, not the interests of parties that have title to bonds that debtor countries cannot possibly repay in full. We note that in a March 2015 lending agreement with Ukraine, the IMF included a “prior action” loan condition obliging the government to engage in negotiations with creditors for restructuring a sovereign debt that the Fund considered could not be fully reimbursed. The IMF should follow up such practice with a statutory approach that supports the restructuring of unsustainable debts.

19. In September 2014, the UN General Assembly adopted a resolution in favour of a multilateral convention establishing a legal regulatory framework for sovereign debt restructuring processes. UN agencies are currently working on concrete proposals for the design of a sovereign debt workout mechanism. The IMF should support such a framework and work with the UN, member governments, civil society organizations and other interested parties for its creation.

A robust World Bank labour safeguard

20. In July 2014, the World Bank released a draft *Environmental and Social Framework* for updating the Bank’s social and environmental lending requirements, commonly termed “safeguards”. The proposed new framework would include “Environmental and Social Standard 2: Labor and Working Conditions” (ESS 2). While the inclusion of a labour safeguard is welcome since it is absent from the Bank’s current policies, the proposed ESS 2 contains major flaws that would render its provisions inapplicable to most of those who work in Bank-funded projects. The draft ESS 2 is considerably weaker than labour safeguards that exist at other multilateral development banks.

21. All development banks that have adopted labour safeguards to date require that projects comply with the core labour standards as defined by the ILO, which all member countries endorsed in 1998 by adopting without a single opposing vote the ILOs’ *Declaration on Fundamental Rights at Work*.[3] The World Bank’s ESS 2 proposes to break with this precedent by requiring compliance with some of the standards only “where national law recognizes” them, in particular concerning freedom of association and right to collective bargaining. This would open the door to discrimination or repression against

[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.

workers in World Bank-funded projects who attempt to exercise their right to freedom of association. The other development banks' standards explicitly prohibit such retaliatory measures.

22. The Bank's proposed ESS 2, again contrary to the practice established at the other development banks, would not apply to contract workers, who are frequently the majority of those who work in Bank-funded projects such as infrastructure construction. They are a category of workers particularly subject to exploitation and abuse, for example unsafe working conditions and unjust dismissal. This kind of abuse, and problems such as child labour and discriminatory practices, could continue unabated and without recourse in World Bank-funded projects, contrary to projects financed by the other banks that have adopted labour safeguards. The exclusion of contract workers is particularly inexplicable in view of the fact that, according to the draft policy, contractors and subcontractors would be expected to comply with all of the Bank's ESSs with the sole exception of ESS 2 on labour.

23. The provisions of the World Bank's labour safeguard should be as strong as those of the other banks as regards compliance with the core labour standards, application to contract workers, assessment of supply chains and obligation to provide written information to workers about their conditions of employment. There should also be effective procedures for monitoring application of the requirements and responding to complaints about non-compliance.

24. Trade unions and other organizations took part in numerous consultations since July 2014 where they urged the Bank to correct these flaws and to adopt a robust labour safeguard. Several governments and some international agencies also joined in recommending the adoption of a safeguard stronger than the 2014 draft. The Bank should adopt a safeguard that meets the best international practices, not undermine those already implemented elsewhere. By assuming such leadership, the World Bank will increase the prospect that its model will be emulated by other multilateral development banks, including the recently created New Development Bank and Asian Infrastructure Investment Bank.

Global Unions' recommendations

Measures to support economic recovery

25. The IMF and World Bank should

- Encourage countries to seize the opportunity of decreased oil prices by adopting carbon taxes and using the revenues to finance energy-efficient infrastructures and other needed public services;

- Support and help implement a global recovery strategy consisting of a policy mix of public investment stimulus and of 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 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;

- 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

26. The IMF and World Bank should

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

- 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 action plans to support the implementation of a global social protection floor as developed by the ILO, endorsed by the United Nations, agreed at G20 meetings and included in IMF and World Bank strategies.

Measures for effective financial regulation and taxation

27. 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 implementation of the euro-zone initiative for the coordinated implementation of a comprehensive FTT in eleven countries.

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