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PUTTING SUSTAINABLE DECENT WORK CREATION AT THE CENTRE OF GROWTH AND DEVELOPMENT STRATEGIES

Statement by Global Unions to the 2012 Annual Meetings of the IMF and World Bank Tokyo, 12-14 October 2012

Introduction

1. The generalized economic slowdown that has been threatening since 2010 became a certainty in 2012. Several economies, particularly in Europe, have entered into a double-dip recession, only three years after the 2009 global economic contraction. Almost all regions of the world are experiencing reduced growth, including in the large emerging-market economies that previously seemed unaffected by continuing financial crisis in other regions. The renewed global slowdown is due to the premature shift by governments away from supporting the recovery and towards fiscal contraction and austerity policies that cut global demand and hence growth. This is compounded by the failure of governments and international institutions to reform the dysfunctional and insufficiently regulated financial system which caused the 2008-2009 global crisis and to address the huge debt overhang which is a further obstacle to economic recovery.

2. Rather than promoting austerity and labour market deregulation policies that destroy jobs and increase inequality, the International Monetary Fund should support job-rich and sustainable development and growth policies, several of which are described in this statement prepared by Global Unions[1] for the 2012 Annual Meetings of the international financial institutions (IFIs). The statement also provides a list of actions that the IMF and World Bank, along with the Financial Stability Board and other institutions, should promote to re-regulate the financial sector such that it assumes its fundamental purpose of serving the needs of the real economy.

3. The World Bank should use the opportunity of the publication of its annual *World Development Report*, which this year is devoted to the theme of jobs, to put creation of sustainable decent work at the centre of its development strategies. Jointly with the IMF, ILO and other UN agencies, the Bank should move forward on the G20's endorsement

[1]The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 175 million members in 153 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.

of social protection floors and adopt the target of establishing such floors in all countries by 2020. Urgent action is especially needed to mitigate the impact of the most recent food price spike, which threatens to push millions of people back below extreme poverty thresholds.

4. In response to recommendations made both within and outside the institution, the World Bank Group should use the current social and environmental safeguards policy review to establish a consistent and comprehensive practice of respecting fundamental workers' rights in all operations. Both IFIs should also be particularly vigilant that their programmes reinforce the respect of internationally agreed rights in countries that are transitioning away from situations of acute repression and denial of rights, such as those in the Middle East-North Africa and Burma. They should also work to ensure that private investors respect fundamental workers' rights and promote decent work in a meaningful way, and intensify efforts to combat corruption in these countries and others.

Jobs must be central in development strategies

5. Problems of high unemployment and underemployment predate the last global recession and subsequent period of slow recovery, but institutions such as the G20 and the IFIs have stated this issue to be their priority concern since the economic crisis broke out in 2008. However despite numerous declarations of their intention to improve the situation, little progress has been made in reducing global joblessness. As the ILO's *World of Work Report 2012* has shown, there remains a jobs deficit of 50 million relative to the pre-crisis situation. Young people have been particularly affected, with youth unemployment since 2008 having increased by 80 per cent in advanced and two-thirds in developing economies. Poverty rates and inequality have increased in most countries. The ILO also found that the incidence of precarious employment – jobs that are involuntary part-time or temporary – increased in most countries.

6. **The World Bank's decision to focus its *World Development Report 2013* on jobs is welcome. The Bank should use the opportunity of the publication of the WDR 2013 to promote the understanding that creation of decent work must be at the centre of the development process if economic growth is to be broadly shared.** This concept was endorsed by G20 leaders in their Los Cabos Summit Declaration of June 2012, where they declared their support for "creation of decent work and quality jobs", meaning "jobs with labour rights, social security coverage and decent income", and for placing them "at the heart of our macroeconomic policies".

7. The Bank should seek to translate the G20's rhetoric into practicable policy approaches by promoting decent work creation as a priority in all of its development plans. It should support the production of goods and services that respond to people's needs, and help countries to properly regulate financial sectors such that they are at the service of the real economy and people's needs, rather than sources of abuse and instability. **The Bank should use the opportunity of the launch of its report on jobs to encourage countries to put in place appropriate levels of labour regulations** – such as minimum wages, maximum hours, protection against unfair dismissal and occupational health and safety rules – **thus turning the page on the retrograde**

concept formerly promoted by the Bank's *Doing Business* publication that labour markets should be completely deregulated. The Bank can also play a central role in giving reality to the G20 leaders' endorsement at Los Cabos of "the need to structurally transform economies towards a climate-friendly path over the medium term" and to "promote inclusive green growth and sustainable development as appropriate to country circumstances".

World Bank's social protection and labour strategy

8. The growth of inequality has been another distinguishing feature of economic development of the past thirty years in most countries. As with the employment deficit, the recent economic crisis has accentuated problems of inequality but they predate it. The World Bank's recently adopted Social Protection and Labour Strategy could contribute to reversing such trends, but vigorous actions will be necessary to follow up on expressions of support for new initiatives in this area. They include incorporating the gender dimension more fully into the Bank's support for social protection programmes such as pensions, and favouring the expansion of measures such as unemployment benefits to protect vulnerable workers.

9. A key area in which the Bank can play a stronger role for reducing inequality and poverty will be in implementation of the Social Protection Floor (SPF) Initiative; the Bank's new social protection and labour strategy states that the Bank will act as a "strategic partner" with other agencies for the realization of the SPF. In their Los Cabos statement, G20 leaders reiterated their recognition of "the importance of establishing nationally determined social protection floors" and their support for inter-agency work for assisting low-income countries in implementing SPFs. **The World Bank and the IMF should both contribute to the joint work with the ILO and other UN agencies in order to move forward for the rapid establishment of social protection floors. Global Unions recommend that the IFIs and the UN fix 2020 as the target year for putting in place SPFs in all countries.**

Need for IFI action to mitigate impact of food price hikes

10. The need to move forward on establishing SPFs has been given particular urgency because of the new surge in food prices in mid-2012 that the World Bank and UN agencies have confirmed. **The Bank's global food price index**, which is calculated from the prices of basic foodstuffs, **reached its highest level ever in July 2012. Both the IMF and World Bank should quickly scale up their programmes to assist countries in improving their food security**, giving particular emphasis to access to sufficient nutrition for low-income populations. Both IFIs should also escalate efforts to reduce abusive investment practices in financial commodity markets that have contributed to food price volatility.

11. In many contexts, **ensuring that populations have access to sufficient nutrition may well require expanding the availability of basic foodstuffs at below-market prices**. **The IFIs' preference for limiting assistance to certain households** poses

many problems and challenges, particularly in low-income countries that have never put in place targeted delivery of social protection programmes, and **can result in many of the most vulnerable being deprived of all assistance.**

12. Volatility in food prices is frequently closely linked to fuel price surges. The IFIs are currently encouraging governments in several countries to remove fuel subsidies as recommended by the G20. Although the removal or reduction of fuel subsidies may be desirable for health, environmental and other reasons, they can have immediate detrimental impacts on low- and middle-income people unless adequate and effective mitigation strategies are fully in place *before* changes to subsidies cause price spikes that are harmful to vulnerable populations. **Trade unions and other civil society organizations must be consulted on the establishment of new assistance programmes and the modification of existing ones, including any changes to subsidized food and fuel programmes and their sequencing.**

Protecting fundamental workers' rights in all World Bank operations

13. The recognition of the importance of core labour standards[2] is included in the World Bank's new Social Protection and Labour Strategy. CLS are the underpinning of well-functioning labour markets and effective industrial relations systems that promote productive work and fair wages. They are central to equitable distribution of income and the World Bank's mission of poverty reduction. **Beyond the important role the World Bank can play in the promotion of core labour standards, the Bank's most effective contribution is to make certain that its own operations comply with them.**

14. The Bank's private sector lending arm, the International Finance Corporation (IFC), has required since 2006 that client companies comply with CLS 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 January 2012, reaffirm the importance for borrowing companies to respect 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.

15. Additionally, in 2010 the World Bank and the regional development banks jointly incorporated CLS 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, IBRD and IDA.

[2]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).

16. 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, community impacts, and pollution prevention and abatement… 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 CLS 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 internationally agreed fundamental rights of workers.**

17. **The revision of the World Bank's safeguard policies, which is scheduled to be completed in 2014, should include a safeguard on labour standards.** The policy should require compliance with all four of 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.[3]

New IFI programmes in countries in transition

18. Both the IMF and World Bank should be particularly vigilant about governments' respect of fundamental workers' rights, as expressed in the CLS, in countries where gross violations of workers' rights have taken place. In the Middle East and North Africa (MENA), the widespread denial of freedom of association and right to collective bargaining, combined with discriminatory practices along with insufficient attention to employment creation, contributed to the growth of inequality and the sense of exclusion among many that led to the so-called "Arab Spring". For example, youth unemployment rates in the MENA region are currently far above those in any other developing regional and double the global rates, according to ILO data.

19. Developments in the MENA region have shown the importance of respecting rights and applying policies that favour employment and inclusive growth if one is to achieve sustainable development. The IMF recently concluded new lending agreements with some countries in the region and is negotiating with others, notably Egypt, which has requested important financial assistance from the Fund. The World Bank has also increased its lending to several countries in the region. **The IFIs should make the conclusion of new lending agreements in the Middle East-North Africa contingent upon respecting freedom of association and the other fundamental workers' rights.**

20. The IFIs should also contribute to the positive developments towards democratization and respect of rights that have taken place in Burma, a country that until

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

recently had received no financial assistance from the IFIs since the 1980s. Several actions and declarations by the Burmese authorities, such as freeing political and trade union prisoners, legalizing the creation of trade unions and removing several exiled trade unionists and rights advocates from blacklists, are among the positive developments. However serious problems remain and violations of rights continue at alarming levels. **The IFIs should encourage further steps in improving respect of rights by requiring concrete progress in specific areas before further IFI engagement and financial support to Burma is committed. In the area of labour, the cessation of forced labour and child labour practices and full respect of freedom of association are among the measures that should be required by the IFIs.**

IMF should support job-rich growth, not austerity

21. In July 2012 the IMF announced, once again, a downward revision of its global economic growth forecasts. The most recent update of the Fund's *World Economic Outlook* predicted that growth would turn negative in Europe in 2012 and that there would be substantial slowdowns in almost every other region of the world, including in high-growth emerging market economies. **The renewed downturn – particularly in Europe – demonstrates once and for all that the severe austerity policies supported by the European Central Bank, the European Commission and the IMF are doomed to failure.**

22. The IMF's own economic research has cautioned that aggressive, "front-loaded" fiscal consolidation programmes in countries already facing recession are likely to create deep economic decline. But instead of heeding the warnings, the IMF and European institutions praised the aggressive austerity package applied by Latvia, and have presented it as a success story, even though the country had the dubious distinction of suffering the sharpest recession of any economy in the world during the 2008-2009 crisis: a drop of 18 per cent in the country's GDP in 2009. The shrinkage of the Latvian economy only stopped when the government began relaxing austerity measures.

23. Other European countries have also suffered substantial contractions of their economies resulting from the application of massive austerity programmes as conditions of financial assistance provided by the ECB, EC and, in most cases, the IMF, an alliance of institutions otherwise known as the "troika". The troika has claimed that drastic austerity is necessary in order to placate financial markets so as to reduce interest costs demanded by private lenders, and because austerity will render economies more "competitive" and make them grow.

24. In reality, the **countries that have applied the troika's austerity plans have seen their borrowing costs increase even more; and the idea that wage reductions, pension cuts and slashing of government spending will engender "growth-through-austerity" has proved similarly illusionary.** Eight euro-zone economies are expected to see their GDP shrink in 2102. Greece and Spain are already experiencing depression-level rates of unemployment: a quarter of the labour force in those countries is without work, according to official data; among young people, more than half are unemployed. **It is clear that the massive austerity programmes have done no more**

than intensify the downward economic spiral in the countries that have adopted them.

Labour market deregulation prolongs recessions

25. A key feature of the policy advice and lending conditions included in the troika's programmes in euro-zone countries experiencing economic difficulty has been major deregulatory reforms of labour market institutions and social protection schemes. These have included measures to reduce pensions and increase retirement ages; eliminate wage indexation and cut minimum wages; reduce unemployment benefits and severance pay while relaxing dismissals procedures; and weaken or dismantle sector-level collective bargaining practices.

26. **IMF statements have at various times claimed that the deregulatory reforms will be strongly growth-enhancing, but the Fund's own research does not bear out the grandiose claims.** Instead, the Fund's research papers show that such measures will have important social costs in the short-run, that there is no academic consensus that they will enhance growth in the longer-run, and that any potential positive impact will be minor compared to what can achieved by attacking the important constraints in the weaker euro-zone economies, such as in the areas of infrastructures, education and training and access to finance.

27. Moreover, even the IMF's own research showing the possibility of modest economic gains from labour market reforms stipulates that they will only occur if aggregate demand is boosted, something that the troika is obviously not promoting. On the contrary, by obliging countries to cut wages, pensions and government spending, the troika is actually encouraging a reduction of aggregate demand. Research carried out by other international institutions casts even more doubt on the troika's claims that labour market deregulation is good for jobs. In a major report on the growth of inequality published in late 2011, the OECD found no evidence that labour market deregulation measures increased national employment rates but did find that they increased wage inequality.

28. **The IMF should abandon the job-destroying measures that it is promoting with its troika partners and instead follow up on the commitments it made in a joint conference held with the ILO in Oslo in September 2010, where the Fund agreed to give greater focus to policies for promoting employment-creating growth in response to the global economic crisis.**

29. Joint ILO-IMF approaches, aimed at placing greater emphasis on employment and improved social protection in recovery strategies, have been launched in three countries. Work for elaborating job-rich growth strategies in these countries has included dialogue with trade unions and employers as well as the government. These ILO-IMF initiatives should be brought to fruition and multiplied by adding other countries. Likewise the ILO-IMF work on the design of financing mechanisms for national social protection floors should be intensified, something that would be consistent with the G20 leaders' statement in Los Cabos supporting enhanced inter-agency cooperation on the SPF.

30. **The IMF should also ensure that decent work creation is the given the highest priority in the new "Los Cabos Accountability Assessment Framework", created at the last G20 Summit**, which appears to have superseded the G20's Mutual Assessment Process for Strong Sustainable and Balanced Growth. The IMF has been given a coordinating function for the Los Cabos Framework, but the Fund should show its full commitment to the objectives of maintaining and creating jobs, providing adequate social protection and investing in the green economy by fully incorporating the ILO into the process.

Support for employment-creating growth

31. There are several measures that the IMF and the World Bank should take to ensure that elimination of the employment deficit is given top priority in national recovery strategies:

- **Fiscal consolidation plans should be modified so as to avoid worsening the employment situation.** Fiscal adjustment should be delayed or its pace slowed and, if needed, Fund and Bank financial assistance should be extended over a longer period until a sustainable recovery is in place.
- **Greater emphasis should be given to revenue-generating measures to achieve medium-term reductions of fiscal deficits, rather than giving the principal role to expenditure reductions as has been the case in most fiscal adjustment plans**. Achieving deficit reduction primarily through spending cuts imposes a disproportionate cost on beneficiaries of social programmes, particularly women, and on public sector workers. Furthermore, as the IMF's own research has shown, the multiplier effect of spending cuts is greater than that of tax increases, such that the former have the strongest negative impact on the economy.
- **When additional tax revenue is needed for medium-term deficit reduction, the IFIs should encourage countries 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.
- **The IFIs should support debt restructuring where necessary in order to alleviate major obstacles to national economic recovery.** The restructuring should include reductions of home mortgages in countries where real estate values have collapsed, and rescheduling of sovereign debt repayments in countries with unsustainable levels of indebtedness.
- **The IFIs should pay special attention to protecting, promoting and funding quality public services such as health care and education.** Diminished spending for education and training will hinder long-term economic and social development, leaving children and young people with insufficient and inadequate education, while lower spending on health care could significantly hinder global efforts to reduce the incidence of infectious diseases and achieve universal access to HIV/AIDS prevention and treatment.

- **In order to prevent a prolonged period of economic stagnation, the IFIs should encourage countries to increase public investments in key growth areas, particularly recognizing the importance of "green economy" and climate-related investments.** They should support global efforts towards a Just Transition for workers in moving towards a sustainable green economy.

Need to make progress for appropriate financial regulation

32. The institutions responsible for global financial governance are still far from enacting the "sweeping reforms to tackle the root causes of the crisis and transform the system for global financial regulation" that G20 leaders stated were urgently necessary in their Pittsburgh Summit declaration of September 2009. Partial initiatives to re-regulate financial sectors have taken place on national levels but some measures could be rolled back due to pressure from private financial institutions, which seem to feel that they have the right to return to earning super-profits in a deregulated environment while relying on the state to bail them out if they make bad investment decisions. It is ironic that in some regions still deeply affected by the impact of the global financial crisis, governments and international institutions talk more about labour market deregulation, which will do nothing to address the root causes of the crisis, than about the pressing need for serious financial sector reform.

33. At the G20 Summit in Cannes in November 2011, the Financial Stability Board (FSB) and G20 agreed on a series of measures in order to improve the supervision and regulation of the Global Systematically Important Financial Institutions (G-SIFIs), that is, the "too-big-to-fail" banks that could create systemic risk for the global economy. A list of 28 global banks considered by the G20 to be G-SIFIs has been established. **Global Unions believe that a transparent and participative implementation mechanism for the G-SIFI measures is needed. The instruments should include protections for whistleblowers and workers who submit grievances concerning implementation. Collective bargaining mechanisms should also be viewed as a valuable instrument**, both at the national and international levels, for involving financial sector workers' representatives in the effective implementation of the G-SIFIs agreement. As member organizations of the FSB, the IMF and World Bank should support such mechanisms.

34. The financial crisis raised a high level of awareness about the role of remuneration and incentive structures in risk management for executives and traders in the financial sector. Less attention has been given to remuneration structures and incentive systems for employees at lower levels, which also play a major systemic role in risk management and are a potentially destabilizing factor in financial markets. The 2007 sub-prime crisis in the US housing market is clear evidence of the systemic impact of inappropriate incentive structures, where remuneration based exclusively on sales targets increased the risk of customers being sold products that were unnecessary or which they could not afford.

35. **Incentive structures within financial institutions must encourage prudent advice and good customer service – as an aim in itself, but also to mitigate the**

risk of the recurrence of another devastating crisis. Variable pay and bonus systems should be kept at reasonable levels, be built on transparent rules and objective criteria, include quality targets in addition to quantity targets and be subject to collective bargaining. Prudent and risk-conscious behaviour, rather than short-term revenue generation and excessive risk-taking, should be encouraged.

36. **Global Unions urge the Financial Stability Board, the IFIs and member countries to take coordinated action for adequately regulating the global financial system before a new crisis occurs, including:**

- **Implementing reforms to rules and procedures so as to restructure the too-big-to-fail financial institutions, thus reducing the real and immediate threats for public finances;**
- **Curbing bonuses and other irresponsible and excessive financial sector remuneration plans and fully involving workers' representatives in 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;**
- **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 and fully involving employees in supervisory processes;**
- **Supporting financial services that serve the real economy, such as cooperative banking, mutual insurance and public financial services.**

37. 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. **Given the growing worldwide support for an FTT to finance job-intensive recovery programmes and public services and achievement of development and climate-finance goals, the IMF and the FSB should offer their assistance for an internationally coordinated implementation of the FTT in as many countries as possible.**

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