



## **A ROBUST WORLD BANK LABOUR SAFEGUARD AND IFI SUPPORT FOR A WAGE- AND PUBLIC INVESTMENT-LED RECOVERY**

**Statement by Global Unions<sup>1</sup> to the  
2014 Annual Meetings of the IMF and World Bank  
Washington, 10-12 October 2014**

### ***Introduction***

1. The global economy has not yet emerged from more than six years of recession and stagnant growth, as is evident in the latest downward revisions of growth forecasts for most large developing and advanced economies. It is high time for the international financial institutions (IFIs) to champion policies that would address the combined problems of deficient aggregate demand and rising inequality that are at the root of the current global economic stagnation. This statement puts forward a proposal for a coordinated wage- and public investment-led recovery strategy that the International Monetary Fund and World Bank should support and help implement.
2. The IFIs should also take actions to ensure that they enunciate a consistent approach to the problem of income and wealth inequality, which has increased in most countries. The statement points out contradictions in the IFIs' policy messages on this theme and makes recommendations on how they can be resolved. The statement also urges the IFIs to address the negative impacts of unsustainable sovereign debts and to contribute to the creation of a multilateral framework for achieving binding sovereign debt restructuring agreements.
3. The other major issue treated in this statement concerns the important weaknesses in the World Bank's proposed labour standard safeguard. By excluding contract workers and proposing a variable compliance with the core labour standards as well as other limitations, the standard would have almost no capacity to resolve the problems created by the absence of a labour safeguard that the Bank's Independent Evaluation Group called attention to.<sup>2</sup> The World Bank's labour safeguard would be far weaker than those adopted

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<sup>1</sup> The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 176 million members in 161 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.

<sup>2</sup> Independent Evaluation Group-World Bank, *Safeguards and Sustainability Policies in a Changing World: An Independent Evaluation of World Bank Group Experience*, 2010

by other multilateral development banks. The statement puts forward suggestions for correcting these flaws.

### ***World Bank's labour safeguard must equal those of other banks***

4. In July 2014 the World Bank released a draft *Environmental and Social Framework: Setting Standards for Sustainable Development* 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 considerable weaker than labour safeguards that exist at other multilateral development banks. The flaws should be corrected during the upcoming revision process after consultations with workers' representatives and other key stakeholders.

5. All development banks that have adopted labour safeguards to date require that projects comply with the core labour standards as defined by the International Labour Organization (ILO). 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 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.<sup>3</sup>

6. 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 reprehensible in view of the fact that, according to the draft policy, contractors and subcontractors will be expected to comply with all of the Bank's ESSs *with the sole exception* of ESS 2 on labour.

7. The World Bank should revise its draft ESS 2 and harmonize its provisions with the labour standards established at other multilateral development banks. In particular its provisions 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

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<sup>3</sup> 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.

employment.<sup>4</sup> There should also be effective procedures for monitoring application of the requirements and responding to complaints about non-compliance

### ***Wage- and public investment-led recovery strategy***

8. Optimistic predictions made earlier by the IFIs that 2014 could be the year the global economy emerged from six years of recession and slow growth have been dashed by recent economic news. Already in July, the IMF reduced its global forecast for 2014 due to slower than expected GDP growth in the US, China and other emerging-market economies because of weak domestic demand or the impact of geopolitical conflicts.

9. Even more recently, data from Europe show that growth has slowed again, creating the perspective of the euro area entering into a “triple-dip” recession. Close to zero inflation in the euro zone, with outright deflation in the most distressed countries, is intensifying the weight of high personal and sovereign debts on a domestic demand base which is already squeezed from years of austerity policies, high unemployment and wage suppression.

10. The impact of the jobs gap and stagnant wages in damping economic recovery is not limited to Europe. In September, a report for the G20 prepared by the ILO, OECD and World Bank noted the following: “Wage growth has significantly lagged behind labour productivity growth in most G20 countries. The decline in labour’s share of income observed in most G20 countries over recent decades has continued in some while in others the labour share has stagnated. Wage and income inequality has continued to widen within many G20 countries ... Re-igniting economic growth also depends on recovery of demand, and this in turn requires stronger job creation and wage growth.”<sup>5</sup>

11. Monetary policy alone cannot address and correct the perspective of long-term economic stagnation and continued high unemployment and under-employment resulting from deficient demand. The IFIs should support and help implement a global recovery strategy hinged on the recovery of wages and investments in public social and physical infrastructure. A modelling exercise prepared for the “Labour 20” to evaluate the impact of a policy mix of coordinated wage increases and public investment stimulus shows that such a scenario could create up to 5.8 per cent more growth in the G20 countries in the next five years.<sup>6</sup> A wage- and public investment-led recovery strategy would also help to attain objectives of reducing inequality and achieving social, environmental, fiscal and financial sustainability.

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<sup>4</sup> Global Unions have issued a detailed analysis of the weaknesses of the World Bank’s draft labour safeguard and suggestions for improvement: <http://www.ituc-csi.org/major-weaknesses-in-world-bank-s>

<sup>5</sup> ILO, OECD, World Bank, *G20 Labour Markets: Outlook, Key Challenges and Policy Responses*, September 2014 ([http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_305421.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_305421.pdf))

<sup>6</sup> The scenario consists of policies in G20 countries to increase the share of wages in GDP by 1 to 5 per cent depending on the country, and to raise public investment in social and physical infrastructure by 1 per cent of GDP in each 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>)

## ***Actions by IFIs against inequality***

12. Both the IMF and World Bank have produced new policy documents that advocate addressing the problem of growing income and wealth inequality in many countries. These have included the *World Bank Group Strategy* adopted in 2013 which was followed by implementation plans, and an IMF policy paper on *Fiscal Policy and Income Inequality* released in March 2014. The IFIs' analyses have highlighted the negative impacts of inequality, including the obstacles it creates for achieving poverty reduction and other development objectives, and its contribution to instability and slower economic growth.

13. While the recognition of the importance of reducing inequality as a policy goal is certainly welcome, the IFIs' high-level reports on this theme have been disappointingly limited in both their analyses and recommendations. They have failed to examine current IFI policy stances that can contribute to increased inequality and need to be corrected if serious headway in inequality reduction is to be achieved, most notably in the area of labour market policy.

14. The IFIs' policy reports on inequality have not highlighted or in most cases even mentioned one of the primary mechanisms by which income inequality has increased in most countries: the failure of wages to keep up with productivity increases and the resulting decline of labour's share in national income.<sup>7</sup> The IFIs' inequality reports have focused their attention principally on the need to increase productivity without discussing how the gains are to be shared, and on redistributive policies to mitigate the impact of increased inequality. By focusing on measures that would boost labour productivity while ignoring the generalized failure of wages to share in the increase, the IFIs' approach could exacerbate both inequality and problems of deficient aggregate demand.

15. As for the redistributive measures suggested in the IFI's inequality reports, they have been so limited that one can question whether they would have a significant impact on the problem. For example, the IMF's policy paper on fiscal policy and inequality calls for strict limits on income replacement programmes lest they create disincentives to "take up employment". On the tax side, the report discourages increasing taxes on wealth or on dividends and capital gains, which in many countries are taxed less than labour income or not at all, because of the "mobility of capital". It does not even include a recommendation to increase the progressivity of income tax rates except for the small number of countries that have adopted "flat tax" regimes.

16. Increased rhetorical attention to inequality has also been undermined by IMF programmes and country-level advice on labour and social policy. In Europe for example, the IMF's policy advice and loan conditionality have ranged from reducing or freezing minimum wages, relaxing dismissal procedures, reducing severance pay and weakening collective bargaining arrangements. The last have resulted in sharply decreased rates of collective bargaining coverage in some countries, which will have a profound impact on income distribution as labour's share of national income falls further due to the diminished bargaining power of workers. The weakening of workers' voice due to the diminished clout

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<sup>7</sup> An exception is a joint report of the ILO, OECD and World Bank, *G20 Labour Markets: Outlook, Key Challenges and Policy Responses*, September 2014

of their organizations could also have the important effect of further eroding redistributive fiscal policies, since the labour movement has been an instrumental force in promoting progressive tax systems, better regulatory standards, social programmes that have benefitted low-income people and social dialogue.

### ***World Bank, labour markets and inequality***

17. The World Bank's reluctance to make the connection between labour market developments and inequality is surprising, given the substantial research on the issue that the Bank has published. For example, the Bank's *World Development Report 2006: Equity and Development* noted that "uneven market power" between workers and employers frequently result in "unfair and inefficient outcomes" and lack of protection for workers, thus underlining the importance of establishing and enforcing rights and regulations.

18. The *World Development Report 2013: Jobs (WDR 2013)* determined that some labour market regulations and institutions contribute to reducing inequality and found no evidence for the previously presumed – by the IFIs – strong and systematic negative relationship between levels of regulation and employment. Yet some of the Bank's recent inequality reports repeat the mantra that labour markets always need to be made "more flexible", neglecting the fact that decreased employment security and weakened minimum standards will further reduce labour income.

19. Pronouncements that labour markets need to be deregulated in every circumstance reflect the apparent deeply ingrained view of the Bank's *Doing Business* report which included, until it was suspended in 2009, a labour market flexibility indicator.<sup>8</sup> That indicator gave the best scores to countries with the lowest level of labour regulations on the basis of unproven assertions that fully flexible labour markets enhanced growth. The *Independent Panel Review of the Doing Business Report*, which presented its report to the Bank in June 2013, noted the contradictions between *Doing Business* and the *WDR 2013*. It recommended that the Bank should permanently delete the labour indicator and develop a more balanced labour market policy outside of the *Doing Business* project.

20. The Panel also recommended the elimination of the *Doing Business* tax rate indicator, whose best scores went to countries requiring the lowest tax and social contributions from business, including for pensions and workers' health and safety. The World Bank has yet to act on these recommendations in spite of the clear contradictions between policy recommendations of one of its "flagship" reports and its stated concerns about inequality.

21. Both the IMF and World Bank should develop consistent and coherent approaches on income and wealth inequality within their institutions, and resolve the contradictions that exist currently, where some Bank and Fund statements and reports declare inequality to be an impediment to achieving key development goals whereas others promote measures that will increase inequality. Both IFIs must further ensure that their country programmes, projects and policy advice are compatible with the objective of reducing inequality.

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<sup>8</sup> Although *Doing Business* has suspended its labour indicator, which it calls the Employing Workers Indicator (EWI), it has continued to publish data for compiling the EWI in an annex which also contains comments supporting labour market deregulation.

## ***Need for an international debt restructuring process***

22. The success of so-called vulture funds in US courts, which forced the government of Argentina to renege on the implementation of debt-restructuring agreements that it had concluded with a strong majority of its creditors, have brought to the fore the need to establish a multilateral sovereign debt workout procedure.

23. An attempt to create a sovereign debt restructuring mechanism under the auspices of the IMF failed in 2003, largely because of opposition from private financial institutions. That attempt came about as a result of Argentina's sovereign debt default of 2001 while it was in deep recession, which led to years of negotiations and the eventual agreements accepted by 93 per cent of creditors. The agreements have now been rendered inoperable by a small number of speculative investors, the vulture funds, which purchased distressed Argentine bonds at a deep discount with the express intention of getting a far better deal than creditors who participated in negotiations.

24. 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. The US court decisions in favour of the vulture funds will make it next to impossible to achieve negotiated restructuring agreements in the future, resulting in the kind of stand-off currently facing Argentina. This situation imposes additional costs on creditors who seek a fair resolution of their claims, which in the case of Argentina means acknowledging the risk of purchasing high-premium bonds from a government engaged in a radical free-market experiment leading to recession. The current stand-off also imposes costs on Argentina and its people, who face additional repercussions from the country's uncertain status within the international financial system.

25. A multilateral debt restructuring framework would be relevant not only for Argentina. The protracted and still incomplete efforts to restructure the debt of Greece, which like Argentina more than a decade ago suffered a huge loss of GDP after imposing massive public spending cuts in a futile attempt to maintain payments on an unsustainable debt, have also made clear the need for such a mechanism. In September 2014 the United Nations General Assembly adopted a resolution in favour of a multilateral convention establishing a legal regulatory framework for sovereign debt restructuring processes. The IMF should support such a framework and work with the UN, member governments, civil society organizations and other interested parties for its creation.

## ***Global Unions' recommendations***

### *Measures to support economic recovery*

26. The IMF and World Bank should

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

- Promote, through their policy advice and financial assistance, other targeted measures to support aggregate demand and employment in countries facing serious output and employment gaps or growth slowdowns;
- 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*

27. 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 adopt a World Bank labour safeguard that is as strong and comprehensive as those that have been adopted by other multilateral development banks;
- 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 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 and agreed at G20 meetings.

*Measures for effective financial regulation and taxation*

28. The IMF and World Bank should

- Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debts;
- 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;
- 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 obligations that banks must provide appropriate employee training and take other measures for ensuring that their financial products, services and advice meet the needs of consumers;
- 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 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 (FTTs) to prevent speculative behaviour and raise new sources of finance, and ban high-frequency trading.

24-09-14