Global Unions

TOWARD A FUTURE OF WORK THAT DRIVES SUSTAINABLE ECONOMIC GROWTH

Statement by Global Unions to the 2018 Annual Meetings of the IMF and World Bank

Bali, 12-14 October 2018

Introduction

1. On the horizon is a dramatically different world of work reshaped by automation, digitization, climate change and evolving labour markets. Policy choices can control these forces and steer the world in the direction of sustainable development. In the near-term there is faltering and uneven global economic growth amid mounting conflict over trade. Some emerging-market economies have entered into crises that are creating enormous hardship for the inhabitants of those countries and could lead to instability and job losses throughout the global economy. Global Unions[1] urge the IFIs to promote policies that will avoid crisis and build a better future of work. Decent work can be realized through job creation, respect for fundamental worker's rights, living wages and social protection, reduced inequality and social dialogue. This statement calls on the IFIs to help avoid financial crisis due to under-regulation, rising sovereign debt, tax base erosion and unequal economies. A paradigm of free trade that privileged investors above all else has resulted in widespread damage that feeds a nationalist backlash. The IFIs should offer another way forward based on fairness, sustainability and quality jobs.

2. Global Unions offer recommendations in this statement to sharpen the activities of the IFIs through anticipating and guiding changes in the world of work. The IFIs can promote and invest in just transitions for workforces affected by climate and technology. The IMF can support readiness and adaptability by adopting a strategic framework that supports universal social protection. The implementation of the World Bank labour safeguard will promote the realization of international labour standards in development. The Bank should continue in this direction and put aside the counterproductive proposals in the *World Development Report 2019*, which promotes failed deregulatory measures and regressive taxation. Global Unions support the increased attention on human capital and call for it to be accompanied by policy advice that promotes worker protections and productivity.

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[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 207 million members in 163 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.

Increasing instability in emerging and developing economies

3. The recent onset of major economic crises in two G20 countries – Argentina and Turkey – confirm the apprehensions expressed in the IMF's April 2018 *World Economic Outlook* about the prospect of emerging-market economies coming under serious financial stress. Both countries experienced collapsing national currencies, substantial capital outflows and high inflation until, in attempts to stabilize their economies, the governments took extraordinary steps which in the case of Argentina included negotiating a $50 billion lending agreement with the IMF. Analyses by the IFIs on the causes of these meltdowns have focused on the impact of monetary tightening initiated in the US, high fiscal deficits and high trade deficits due in part to a prolonged period of lower commodity prices. However, the application of an orthodox IMF policy response consisting of hiking interest rates to historically high levels and applying a fiscal austerity programme have only worsened the state of Argentina's economy since it received its IMF loan in June.

4. Other large emerging-market economies such as Brazil, Pakistan and South Africa face increasing challenges from external pressures that are causing economic slowdown or recession, increased unemployment and further instability that could affect the entire world economy. An important factor contributing to the crises in Argentina and Turkey that could spread to other countries is the fact that a substantial part of debts, both private and public, have been contracted in foreign currencies. In the case of Argentina, part of the unsustainable foreign debt arises from a government decision in 2015 to offer compensation to hold-out "vulture funds" that had refused previous governments' negotiated debt-restructuring arrangements accepted by the vast majority of creditors. Those agreements followed Argentina's 2001 economic collapse and sovereign debt default. Increasing interest rates in the United States, as well as the economic stimulus applied there through deficit-financed tax cuts for business and higher-income individuals, have led to dollar appreciation and increased debt loads for emerging economy borrowers.

5. Rising debt burdens are also creating an important constraint on growth in low-income countries. According to IMF analyses, sixteen sub-Saharan African countries, one third of the region's total, are at high risk or already in situations of debt distress. A major causal factor is that most of the recent debt in those countries was contracted in foreign currencies at commercial rates from large private banks or state-owned entities. Some of these debt-burdened low-income countries have recently turned to the IMF for financial bailouts. Two decades after the first Heavily Indebted Poor Countries (HIPC) initiative, a new multilateral debt crisis looms in developing regions as a result of irresponsible lending practices by the private financial sector and some state-run agencies.

6. In addition to monetary tightening, capital outflows and rising debt levels, the trade war between the US and several other countries will affect the economies of many countries. They do so without resolving the legitimate concerns of workers and communities in these countries about trade agreements that have not protected workers' rights and have given disproportionate weight to investors' interests. Global Unions are also highly concerned by the rolling back in some countries of financial regulatory frameworks that were put in place to protect against the abuses that led to the global

financial crisis ten years ago. Recent examples of irresponsible and predatory practices by financial institutions demonstrate the need to extend and strengthen regulation of the financial sector through international cooperation, not weaken it.

Achieving shared prosperity and development in a changing world of work

7. The 2019 edition of the World Bank's *World Development Report*, devoted to the theme of the "Changing Nature of Work", is scheduled to be published in October. Global Unions were deeply concerned by draft versions of the WDR in their strong hostility to minimum wages, employment protection and any other kind of labour regulation. A major recommendation was to do away with contributions by firms to old-age pensions and other types of social protection and to shift the financial burden to workers and the state, with the latter financed largely through regressive consumption taxes. Later drafts contained some improvements, but the WDR remains impaired by questionable assertions minimizing the impact of digitization on the global workforce, claiming that income inequality is decreasing and contending that business regulations are the principal cause of informality.

8. In some cases, the WDR's claims are contradicted by the report itself, for example when it shows that labour's share of national income has decreased in most countries and that informality has not diminished in spite of substantial weakening of business regulations. The trade union movement would have welcomed a serious contribution from the World Bank to the debate on the future of work to help counter inacceptable levels of inequality, informality and lack of social protection, as well as the impacts of new technologies and climate change. Unfortunately, the WDR 2019 does not fulfil that purpose.

9. It is time for the World Bank to end its association with the *Doing Business* report. The report promotes diminished regulation and reduced taxation on business through a ranking system based on shifting methodologies and an analysis of data that reflect a narrow set of concerns from corporate interests. The approach of ranking countries is itself over-simplistic and not conducive to serious, democratic policymaking. Since the introduction of *Doing Business*, inspired by the Heritage Foundation's "Index of Economic Freedom", the report has been dogged by thoughtful internal and external criticism. This blunt tool of deregulatory fundamentalism no longer belongs in the publication list of the World Bank.

Reconsider policies that increase inequality

10. Turmoil in countries including Jordan, Haiti, Tunisia, Egypt, Sri Lanka, Iran and Nicaragua has once again demonstrated the harsh impact of austerity imposed through IMF conditionality and policy recommendations. The Fund needs to undertake a thorough reassessment of the fiscal austerity measures it endorses. Global Unions support serious use of the IMF how-to notes for staff on economic and gender inequality. This includes consideration of alternative policy packages when the recommended or required policies will increase inequality. Within this context, policy recommendations and conditionality should be consistently analysed to determine distributional impacts.

11. IMF staff research has found links between the weakening of labour market institutions and income inequality. Nevertheless, the Fund continues to vocally oppose the restoration of sectoral collective bargaining in Greece and to press for more labour market flexibility. A panel of experts created under the 2015 Memorandum of Understanding recommended a return to sectoral collective bargaining, which was suspended early in the programme of the IMF, European Central Bank and European Commission. The IMF's position against sectoral bargaining in Greece and beyond should be reconsidered in the context of the Fund's focus on distributional impacts and inclusive growth. Sectoral collective bargaining has been shown to reduce wage disparities, support inclusive growth and bolster economic recovery.

12. Recommendations to weaken labour market regulations, such as those providing minimum wages and some degree of job security, appear frequently in IMF country-level policy advice in spite of strong evidence that their weakening significantly contributes to increased poverty and income inequality. A recent IMF working paper ("Employment Protection Deregulation and Labor Shares in Advanced Economies") found a strong link between labour market deregulation and declining labour share in national income since the early 1990s. The Fund's repeated promotion of a deregulatory approach concerning measures that protect workers' interests directly contradicts its claim to support policies that reverse the trend of growing income inequality.

13. IMF lending agreements and policy advice have frequently included provisions to rein in social spending, leading to multiple cases of popular protests against the Fund's recommendations and loan conditions. As a report of the IMF's Independent Evaluation Office confirmed in 2017, the Fund's advice on social spending was generally motivated by a priority placed on short-term fiscal savings rather than on assuring comprehensive social protection for the country's population. The IEO also observed that this stance potentially put the Fund at odds with the UN system's 2030 Sustainable Development Goals. In response, the IMF began a process in January 2018 to review its "institutional view" on social protection with the aim of issuing a revised strategic framework in 2019. The ITUC has provided recommendations on changes the IMF should make to ensure that it supports social protection for all and has called on the Fund to immediately cease its opposition to programmes in member countries that provide universal, rather than narrowly targeted, coverage.

Holistic solutions to fragility through public investment and quality jobs

14. "Fragility, conflict and violence" is a priority theme for the World Bank's International Development Association in the 18th round of funding replenishment (IDA18). Also created under IDA18 was a Private Sector Window that shifts IDA resources toward the work of IFC and MIGA with the private sector. In turn, the strategy for the Private Sector Window has a focus on fragile and conflict-affected states, where high risk can dissuade investment by private actors and development finance institutions. Global Unions call on the Bank to exercise caution in implementing the Private Sector Window, particularly in fragile and conflict-affected areas where low state capacity and other factors can lead to power imbalances between private firms and governments. Public investments that build the foundations for peace and economic growth should remain the focus of IDA. This

includes infrastructure, the care economy, social protection floors and strengthened government institutions.

15. Decent work is of the utmost importance in fragile and conflict-affected states. Attention must be paid to the quality of jobs created in the public and private sectors with support from the World Bank, and the impact of overall policy advice on decent work. The Jobs Group's 2016 framework for fragile and conflict situations envisioned a "jobs and fragility lens" to explicitly examine the implications of policy advice such as reforming state-owned enterprises.

16. As a starting point, the social and environmental safeguards of the World Bank should be thoroughly applied in fragile and conflict-affected states, with no derogation of obligations or monitoring. The Bank can take further steps to integrate decent work into efforts around fragility, conflict and violence. The final IDA18 report identifies "the importance of ensuring that strategies for job creation are matched with efforts to raise the quality of jobs for workers". Further efforts can be made by the Bank to match the focus on the private sector with support for effective labour protections, in line with the report's call for "Targeting support for the private sector and workers in high-risk contexts, including fragility and migration". The same principles of decent work and public investment apply to areas receiving refugees and migrants. Quality jobs should be available in host countries, guided by the principle of non-discrimination and equal remuneration. There should be no lower wages or conditions for refugees and migrants, in line with the principle of equal pay for equal work.

Invest in a just transition supported by social dialogue

17. Workers need a seat at the table in designing national strategies on energy, economic diversification and sustainability. There are serious possibilities of stranded workforces, stranded communities and even stranded countries as the impacts of climate change multiply and countries shift toward low-carbon economies. Global Unions encourage the World Bank to use policy advice and lending to support just transitions designed through social dialogue, including tripartite taskforces. In doing so, the Bank can foster a culture of social dialogue that will best position governments and social partners to surmount other challenges including digitization. The IMF can help countries mobilize revenue for just transitions by supporting carbon taxation.

18. Financing a just transition is an investment in the future. Through coordinated strategies based in stakeholder dialogue, affected workforces and communities can become the engines of new economic growth. However, the mistakes of the past must be avoided. Vague and uncoordinated promises of education and reskilling failed to prevent long-term impacts stemming from trade and structural adjustment. These approaches burden workers who are already facing an uncertain future with the costs of learning new skills and weathering unemployment. For many, a downward spiral resulted in low-wage work, under-employment or withdrawal from the labour force.

19. Global Unions urge continued World Bank commitment to investment in renewable energy, sustainable infrastructure, mitigation and adaptation. Investments that build the foundation of a low-carbon economy can be linked with policy advice on comprehensive

just transitions. Trade unions are eager to collaborate with the Bank to deepen just transition policy advice, and to discuss the role of lending in these transitions.

Consistently uphold international labour standards through the safeguards

20. Global Unions applaud the implementation of the World Bank's new Environmental and Social Framework, which includes a labour safeguard titled Environmental and Social Standard 2 (ESS 2). The labour safeguard is now underpinned by a Guidance Note that acknowledges the importance of the universally-applicable core labour standards of the International Labour Organization. It will be imperative that the Bank cooperates fully with parties knowledgeable about the labour conditions in its projects and programmes, notably the ILO and trade unions. The Bank should plan joint work around training, monitoring mechanisms and consultation procedures in implementing ESS 2. Trade unions can provide invaluable information in the project design phase and should be involved whenever possible. The World Bank should also examine working jointly with other multilateral development banks that have years of experience with labour safeguards.

21. At IFC, dialogue with trade unions since 2006 has driven improvement in the application of IFC Performance Standard 2 (PS 2). Implementation of ESS 2 can draw lessons from the many labour cases related to the IFC safeguards, including Avianca Airlines of Colombia. After several years of investigation of the Avianca case, which concerned denial of freedom of association, IFC's Compliance Advisor Ombudsman (CAO) recommended in 2016 that IFC adopt procedures for suspending payments to client firms that have not fulfilled actions which they committed to take in order to come into compliance with the safeguard.

22. At the same time, IFC should continue to improve its due diligence and response to concerns. A recent CAO report found that IFC "did not correctly apply" PS 2 and thereby contributed to the denial of freedom of association for workers at Sabah Forest Industries in Malaysia. Without a trade union, workers were unable to have a voice regarding mass retrenchments, unpaid wages or health and safety hazards. Global Unions are concerned about an IFC investment in Minerva Beef, which has made little progress to prevent forced and child labour in its Paraguayan supply chain. Despite an avalanche of criticism for the investment in Bridge International Academies and their model of low-quality, fee-based education, IFC has continued to support the company. In 2017-2018, Bridge sought to intimidate the Kenya National Union of Teachers by suing for defamation and obtaining a gag order.

Global Unions' recommendations

Measures to support shared prosperity and decent work

23. The IMF and World Bank should

- Evaluate the impact of all policy advice, lending and conditionality on the level and quality of employment and economic and gender inequality, and design alternative policy packages as needed. Support shared prosperity and the recovery of lost labour share of national income by promoting minimum living wages, collective bargaining agreements with broad coverage and strengthened labour market institutions. End the promotion of labour market deregulation and wage suppression.

- Contribute to the strengthening of public administrative capacity and public investments in quality services and sustainable infrastructure.

- Use policy advice and lending to support a just transition for workers and communities affected by shifts to a low-carbon economy. Promote tripartite social dialogue, social protection and decent work in this process.

24. The World Bank should

- Work jointly with trade unions, the ILO and other multilateral development banks in the implementation of the labour safeguard (ESS 2) to ensure that Bank-financed activities are in full conformity with international labour standards. Use joint work to identify risks for violations and design effective monitoring.

- Ensure that private involvement in development, including investment and Public-Private Partnerships, is responsible and does not endanger the Bank's twin goals or safeguards, nor public services and national development goals.

- Provide labour market advice that advances decent work and is coherent with international labour standards and the UN sustainable development goals. Avoid failed deregulatory recommendations that prevent inclusive growth and shared prosperity by ending the Bank's association with the *Doing Business* report and rejecting the flawed proposals in the *World Development Report 2019*.

Measures for effective financial regulation and taxation and overcoming crisis

25. The IMF should

- Assist emerging and developing countries that are facing economic crisis or slowdown due to external pressures such as monetary tightening by helping them to decrease their dependence on foreign borrowing instead of applying orthodox austerity policies.

• Pursue alternative policy packages when loan conditions or policy recommendations will undermine decent work or exacerbate inequality. Trade unions should be consulted on these topics in surveillance and programme design.

• Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debt.

• Adopt an institutional view on social protection based on social protection floors and universal social protection, not narrow targeting. It should moreover set out how the IMF will ensure adequate, predictable financing for social protection systems, rather than jeopardise social spending.

• Support the extension and completion of steps taken since 2008 to correct under-regulation of the financial sector, such as shadow banking systems, too-big-to-fail financial groups and under-taxation.

• Promote stronger actions including automatic exchange of information to counter the erosion of tax bases, the use of tax havens and profit-shifting. Support reforms of taxation systems that move toward broader-based and more progressive taxes.

• Support the introduction of financial transactions taxes to discourage speculative behaviour and create new sources of finance.

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