CHANGING COURSE FOR MORE EQUITABLE AND SUSTAINABLE GROWTH AND DEVELOPMENT

Statement by Global Unions[1] to the 2011 Spring Meetings of the IMF and World Bank Washington, 16-17 April 2011

Introduction

1. The current period of economic recovery, which the IFIs often refer to as *"sluggish"*, *"uneven"* or *"multi-speed"*, appears particularly lopsided when one compares the rebound of corporate profits and banking bonuses to the continued high rates of unemployment and underemployment and the failure of wages to keep up with productivity growth. The tragic natural disaster that took place in Japan on 11 March and the political and military conflicts in North Africa and the Middle East are likely to further hamper the global jobs recovery. But even before those events occurred, workers, pensioners and the unemployed, who were the principal victims of the global economic and financial crisis, were being forced to pay further through *"fiscal consolidation"* plans whose costs are overwhelmingly assumed by them.

2. The international financial institutions (IFIs) must begin to pay as much attention to *employment deficits* as they do to *fiscal deficits* by taking coordinated action to support job creation as well as education and skills training. They must place greater priority on increasing social protection coverage in collaboration with the United Nations initiative to establish a global *social protection floor*. Both IFIs must act responsibly to protect quality public services vital to societies' development, such as education and health care. Fiscal consolidation plans should be designed to reduce inequalities, not exacerbate them. These plans should include new sources of revenue, notably *financial transactions taxes*, which for the first time would ensure substantial contributions from the financial sector for resolving the economic and fiscal crises that it caused.

3. The IFIs have a primary responsibility for promoting the adoption of recovery programmes that are consistent with a new, more equitable and sustainable growth and development model. Strong efforts are necessary for implementing internationally coordinated re-regulation of the financial sector and extending debt relief and grants to low-income countries beset by new surges of food and fuel prices. Further progress must be made to ensure that all of the IFIs' operations comply with the core labour standards and that interventions in labour market issues support the creation of decent work rather than accentuating precarious labour, declining real wages and reduced workers' protection. Furthermore, the IFIs must ensure that their loans, projects and programmes contribute to efforts to achieve climate resilience and the reduction of greenhouse gas emissions, and not their augmentation.

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[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 175 million members in 151 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, ICEM, IFJ, IMF, ITF, ITGLWF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

Recovery for the banks, but not for workers

4. Three years after the beginning of the global recession of 2008-2009, the recovery has been almost complete ... for bankers, business profits and owners of financial assets. Thanks to the bailouts granted by many governments, the financial sector has recovered its pre-crisis profitability and big bonuses are back. Profits levels of most other business have also shot back to pre-recession levels and stock markets have been soaring. However, for most of the more than thirty million workers who lost their jobs during the recession and the countless hundreds of millions of others who find themselves under-employed and under-paid, there has been no recovery.

5. While governments in many countries continue to prop up the private financial sector through loan guarantees and other types of public-sector support, most governments have been winding down the measures they introduced in 2008 and 2009 to stimulate job creation and to support the unemployed, even though joblessness has only declined slightly from 2009-2010 peaks. *Fiscal consolidation* rather than *job creation* has been become the dominant theme in most countries, including in particular those countries receiving financial support from an International Monetary Fund (IMF) loan programme. Even in countries that clearly have not yet exited from recessions caused by external factors, the IMF and European Union – which is a co-lender in many countries – have demanded rapid fiscal deficit reductions in order to placate financial markets. The result has been a prolonging of recessions, and unemployment rates in the double-digits. In the cases of Greece and Ireland, which in 2010 contracted their first IMF loans in many years, unemployment rates are expected to exceed 15 per cent in 2011, more than double the rates of 2008 in both countries.

6. In a conference in Oslo held jointly with the International Labour Organization (ILO) in September 2010, the IMF agreed that there had to be a greater focus on policies to promote employment-creating growth as a response to the global economic crisis. The IMF has since engaged in joint analysis with the ILO in some countries, with the objective of placing greater emphasis on jobs and protection for the most vulnerable, for example through a *social protection floor*, in recovery strategies. The ITUC and its national affiliates intend to participate fully in these opportunities for dialogue on economic recovery plans both nationally and internationally. The IMF can show its full support for protecting vulnerable populations by assisting borrowing countries to put in place a sustainable financing mechanism for a social protection floor.

7. **There are several other measures that the IMF should take to ensure that elimination of the *employment deficit* is given top priority in recovery strategies:**

- **Fiscal consolidation plans should be adjusted so as to avoid worsening the employment situation**, meaning that the pace of consolidation should be slowed down, and if needed IMF financial assistance extended over a longer period, until a sustainable recovery is in place.
- **Greater emphasis should be paid to revenue-generating measures to achieve reductions of fiscal deficits, rather than the overwhelming emphasis on expenditure reductions** that have taken place in most fiscal consolidation plans, which impose a disproportionate cost on beneficiaries of pensions or other social programmes and on public sector workers, and which have the strongest negative impact on employment.
- **The IMF should pay special attention to maintaining and increasing support for programmes vital to long-term social and economic development, such as infrastructure programmes, health care and education, and climate-related investments which reinforce social progress;** reduced spending for education, for example, could create a *"lost*

generation" of children and young people with insufficient and inadequate education.

- **The IMF should encourage countries to seek to reduce deficits through tax measures that have the least impact on employment levels and that help reduce income inequality**, such as the replacement of *"flat taxes"* by progressive income taxes, measures to tax undeclared incomes and formalize informal economy activities, and financial transactions taxes.
- For its upcoming Conditionality Review, **the IMF should ensure that the new conditionality criteria that it uses are consistent with national development plans seeking to achieve full employment, universal social protection and reduced income inequality.**

IMF should provide assistance for implementing an FTT

8. Support for a *financial transactions tax* (FTT) has continued to grow, as governments seek new sources of revenue to face the huge fiscal challenges created by the global crisis. Global Unions, jointly with a broad alliance of international development and environmental organizations, support this tax as a means to finance job creation and public services as well as international development and climate change finance commitments. Global Unions along with some business leaders and organizations seeking better control and regulation over the financial sector have also supported the FTT because it would give incentives to reduce "*short-termism"*, the creation of asset-price bubbles and recurrent financial crises, and instead encourage productive job-creating investments in the real economy.

9. In 2010, the IMF completed a report requested by G20 leaders at their Pittsburgh Summit in order to identify a mechanism for making the financial sector assume *"a fair and substantial contribution"* to offset the cost of the global crisis, which ultimately created thousands of billions of dollars of losses in the world economy. The IMF's report concluded that *"sufficient basis exists for practical implementation of at least some form of FTT"*, but the Fund expressed preference for two other types of taxes, which it has called a *"financial stability levy"* and a *"financial activities tax".*[2] Although there has been far more support shown internationally for the FTT than the two formulas recommended by the Fund, the IMF has continued to promote its alternatives rather than the FTT. Fund spokespersons have stated that there is no incompatibility between the FTT and the options it prefers, and that it would be best to have some form of financial sector taxation than no tax at all. However its promotion of alternatives that have garnered little support has become a diversion that could be counterproductive to the wide-scale adoption of an FTT.

10. The experience with financial transactions taxes shows that such a tax can be successfully applied in one or a few jurisdictions, but a regionally or internationally agreed and coordinated implementation process will obviously lead to even greater revenue generation. **Given the growing worldwide support for financing job-intensive recovery programmes and achieving development and climate-finance goals, the IMF should offer its assistance for coordinating the effective implementation of the FTT in as many countries as possible.**

[2] IMF, *A Fair and Substantial Contribution by the Financial Sector: Interim Report for the G20*, April 2010

A new growth model is needed

11. The recent popular uprisings and revolutionary movements that have taken place in countries of the Middle East and North Africa showed the short-sightedness of analytical frameworks which ignore such key phenomena as persistent high joblessness, particularly among youth; exorbitant income inequality; concentration of wealth from the exploitation of natural resources in a few hands; lack of freedom of association and expression; and political repression. Some of the countries whose regimes were overthrown had exemplary macroeconomic performances according to the IMF's criteria or were declared top global performers by the World Bank's *Doing Business* publication. Ultimately the model proved to be economically and socially unsustainable. It can be argued that the policies supported by the IFIs in the regions, such as structural adjustment programmes that increased unemployment and privatizations that benefitted only *"kleptocratic"* political elites and exacerbated inequality, made the situations worse in those countries.

12. On a global level, IFI member countries and in particular the G20 have addressed the issue of *global economic imbalances* – referring to persistent high current account deficits or surpluses – when identifying the root causes of the global financial and economic crisis that broke out in 2008. More attention should be paid to the *internal imbalances*, including high inequality and declining labour share of income that contributed to the global crisis. In many countries, real wages have not kept up with productivity increases, sometimes because of restrictions on freedom of association and collective bargaining. To circumvent the stagnant domestic market that these practices lead to, countries adopted policies seeking to increase their exports without increasing imports. Such policies are obviously unsustainable when several countries apply them simultaneously.

13. The IMF should proceed further in its work to develop new approaches that break with the failed *"Washington Consensus"* policy paradigm of the past. Policies that centred on reducing the size of the state, dismantling regulations and liberalizing labour markets all exacerbated the problems of an out-of-control financial sector, rising inequality and declining real incomes for working people. These circumstances contributed to the 2008 financial and economic crisis. Global Unions have taken part in the debate by publishing a book on a new growth model,[3] and invite the IMF to engage in broader debate with other organizations, academics and civil society on the issue.

14. **Following up on some positive steps, the IMF should continue to review its policy framework and ensure that its country-level advice and loan conditions are consistent with the lessons learned and contribute to a more equitable and sustainable model of growth and development. The World Bank should take similar steps. The analytical function that the IMF has assumed under the G20's *Mutual Assessment Process* should be used to identify and correct the policies that have resulted in skewed income distributions and declining labour share and have contributed to the global crisis.**

Globally coordinated financial re-regulation has yet to be implemented

15. The international community has not yet acted to put in place the "*sweeping reforms to tackle the root causes of the crisis and transform the system for global financial regulation*" that G20 leaders said were urgently necessary in their Pittsburgh Summit statement of September 2009. It is highly ironic that in some regions still

[3] Global Unions Taskforce on a New Growth Model, *Exiting from the Crisis: A Model for More Equitable and Sustainable Growth*, April 2011

deeply affected by the impact of the global financial crisis, governments and international institutions are now talking more about structural adjustment and labour market deregulation than about the continued need for serious financial sector reform. The 2008 financial meltdown showed that financial markets could cause enormous damage to real economies. Yet rather than taking measures to ensure that the financial crisis of 2008 is not repeated, in many countries governments have shifted their focus to issues that had nothing to do with the crisis.

16. In some countries positive but partial initiatives to re-regulate financial sectors have taken place on the national level, but next to nothing has been accomplished on the international level, despite commitments by G20 leaders and mandates given to the IMF and the notoriously opaque Financial Stability Board. **Global Unions urge the international bodies and member countries to take coordinated action in the areas where no substantial progress has taken place:**

- **Rules and procedures for breaking up the *"too-big-to-fail"* financial institutions**
- **Strong controls over the non-bank shadow financial economy, hedge funds and private equity firms**
- **Regulations for *"ring-fencing"* risky investment banking activities from other banking operations**
- **Elimination of tax and regulatory havens**
- **Reining in of bonuses and other irresponsible and excessive financial sector remuneration plans**
- **Strict regulations over credit rating agencies**
- **Protections against predatory lending**
- **Support for financial services that serve the real economy, such as cooperative banking, mutual insurance and public financial services.**

Gold sales' profits for debt relief and curbs on food commodity speculation

17. The UN's Food and Agriculture Organization (FAO) declared in January 2011 that its global food price index had surpassed the previous peak reached in mid-2008 during the *"food price crisis"*. Additional price increases have taken place since then and even more recent rises in fuel prices are further exacerbating the conditions of vulnerable populations around the world, most particularly in low-income countries. In February 2011 the World Bank estimated that in just the previous eight months high food prices had driven an additional 44 million people into extreme poverty. The latest surge of prices of basic necessities will further compromise attainment of the *Millennium Development Goal* to halve the number of extreme poor by 2015. Advances in reaching other MDGs could also be rolled back if governments divert budgets for improving health, education and other needs towards emergency food assistance. Progress in achieving the MDGs had already been threatened by the failure of some donor countries to fulfil development commitments, such as those made by G8 leaders at their 2005 Summit in Gleneagles, Scotland.

18. It is urgent that the IMF and World Bank re-establish and scale up the programmes created during the food price crisis of 2007-2008, putting an emphasis on emergency assistance in the form of low-cost basic foodstuffs available to all, direct assistance to the most vulnerable and boosting food production for domestic consumption in the medium-term. The World Bank's decision to assist countries in enhancing food security is welcome. However the Bank should ensure that sufficient resources are made available to respond to the enormous needs that have accumulated after decades of neglect from the IFIs of the agricultural sector in general and food security

objectives in particular. More attention should be paid to the conditions of landless rural workers, which are often the most exploited group in rural economies but whose problems were not mentioned in the Bank's *Global Agriculture and Food Security Program*, launched in early 2010. The Bank should also work in close coordination with the relevant UN organizations, the FAO and the World Food Programme, in scaling up its programmes for agriculture.

19. The expansion of debt relief and other non-debt-creating assistance is the most useful means that the IFIs can use to help low-income countries face the renewed challenges created by the most recent surge in food and fuel prices. The global Jubilee campaign notes that, because of high gold prices, the IMF realized at least $2.5 billion more in excess windfall profits from the sale of gold than it had projected in 2008 when it decided on these sales. The Fund completed those sales in December 2010. **Global Unions support the proposal to use the IMF's excess windfall profits from gold sales for additional, unconditional debt relief or grants to low-income countries. The IMF and World Bank should also develop measures to remove speculative financial investments from food commodity markets since they have clearly contributed to price volatility in recent years.**

World Bank's new social protection and labour strategy

20. The World Bank has begun formulating a new social protection and labour strategy, the first one it has developed since 2001. To prepare the new strategy, the Bank has initiated a process of consultations and created an external advisory group. The latter was to have included members of civil society, according to the Bank's terms of reference, but the group's composition announced in mid-March in fact excluded trade unions and other civil society organizations; members are all from government, academia and the private sector, plus one ILO representative. Since workers will be the primary beneficiaries, or victims, of the Bank's new social protection and labour strategy, one wonders why the Bank rejected any presence of workers' organization experts in its advisory group.

21. Despite this important flaw in the consultative process for the new strategy, Global Unions have welcomed the Bank's announced intention, as described in its *Concept Note*,[4] to pay more attention to the needs of low-income countries in the strategy. Unions have frequently criticized the fact that the main focus of the Bank's past interventions in this area has been to advise middle-income countries with comprehensive public social protection programmes, such as old-age pensions, to reduce the scope of those programmes under the pretext of assuring their fiscal viability. In the meantime, it largely ignored the needs of low-income countries that had no social protection regimes whatsoever. An intention to centre more on the social protection needs of poor countries is a positive re-orientation.

22. However the Bank would do well to abandon the outmoded concept that social protection can be reduced to a question of *"risk management"*. The Bank's view in its previous social protection strategy that old age was a *"risk"* rather than a reality for most people led to the Bank's earlier approach that old-age income security could best be left to individuals and private insurers, resulting in recommendations to reduce the state's role and negative consequences in many countries. With inequality and informality increasing in most countries of the world, finding oneself in precarious, unprotected work devoid of any social protection is no longer a risk, but a certainty for an increasing share of the population. The World Bank must address the structural

[4] World Bank, "Building Resilience and Opportunity: The World Bank's Social Protection and Labor Strategy 2012-2022 – Concept Note", January 2011

and systemic problems that create these phenomena – which include discrimination, disempowerment, abusive exploitation of workers and denial of rights – and assist governments to adopt strategies that correct them, rather than taking the view that social protection is principally a matter of helping individuals manage risks.

23. Additionally, the new strategy as outlined in the *Concept Note* is significantly weak as far as labour market issues are concerned. The Bank has in the past been very active in promoting labour market reforms, giving the main emphasis to enhancing labour market flexibility using the controversial flexibility indicators of the Bank's highest-circulation publication, *Doing Business.* Without any empirical evidence to back up its claims, the Bank asserted that countries that reduced labour market regulations in order to improve their *Doing Business* ratings would achieve improved economic performance and employment creation. The Bank's own *Independent Evaluation Group* debunked these claims in a 2008 report,[5] but not before scores of countries had been advised by the World Bank and IMF to reduce workers' protection. Countries such as Belarus and Georgia received praise from the Bank for dismantling labour regulations and improving their *Doing Business* scores and rankings, while being condemned by the ILO for violating fundamental workers' rights.

24. It is surprising that instead of announcing the intention to completely revise its approach on labour market policy – the *Doing Business* indicators were a key underpinning of the *"MILES"* programme for labour market reform developed by the Bank's Social Protection and Labor unit – the *Concept Note* repeats the tired assertion that job creation will be improved in each and every context through a *"narrowing down of the scope of labor market regulations"*. It is doubly surprising to see the Bank's orientation note repeat that false premise since in 2009, in light of the devastating impact of the global recession on employment and working conditions around the world, the Bank suspended the *Doing Business* labour indicators, removed them from its overall framework for determining access to the Bank's concessionary resources (the *"CPIA"*) and commenced a process of revision of the labour and taxes indicators with the assistance of an external advisory group.

25. **The Bank's new social protection and labour strategy should:**

- **Be based on a serious analysis of the problems faced by working people in every region, which include persisting high employment and under-employment, a jump in income inequality that reflects reduced income share and declining bargaining power of workers and continued violations of workers' rights;**
- **Promote the need for a balanced and comprehensive approach to labour market issues, where respect for fundamental workers' rights, adequate labour regulations, better enforcement, improved social protection and adequate public financing play key roles;**
- **Promote extension of coverage as the primary goal of the Bank's social protection interventions; ensure equal outcomes for women and men in the provision of social security; and support the development of a social protection floor in cooperation with the ILO, including through appropriate financing mechanisms.**

[5] World Bank Independent Evaluation Group, *Doing Business: An Independent Evaluation*, 2008

Protecting fundamental workers' rights in World Bank operations

26. The failure to even mention fundamental workers' rights, as enshrined internationally since 1998 in the core labour standards (CLS),[6] is another important weakness of the Bank's *Concept Note* for its social protection and labour policy. The CLS have been established as fundamental rights that all countries should respect, and that create the basic conditions required for working people to be able to improve their working and living standards. They are the underpinning of well-functioning labour markets and effective industrial relations systems that allow for an equitable distribution of income, and should be promoted as such in the Bank's social protection and labour strategy.

27. The IFIs' most effective contribution to policies that are consistent with CLS is to make certain that their own operations comply with them. Over the past five years, the World Bank Group has made considerable headway in this regard. 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*. It has prepared implementation guides, trained staff, adopted monitoring procedures and established a complaints mechanism to receive information about possible violations.

28. The IFC is completing a revision of its performance standards, for which Global Unions made several recommendations. Unions are concerned that the revised latest draft of *Performance Standard 2: Labor and Working Conditions* has introduced important loopholes by proposing to add severe restrictions on the application of the standards on contract workers. Global Unions recommend that the IFC ensure that the standards are widely applied to all categories of workers that work in IFC-financed activities. Also, measures should be taken to ensure that the standards are fully applied to the end-projects financed through financial intermediaries; the latter comprise 45 per cent of the IFC's current investment portfolio.

29. 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. The Bank's procurement and infrastructures departments need to move forward in adopting implementation measures to ensure full compliance with the CLS in Bank-funded projects. These measures consist of training of Bank and government officials and appropriate monitoring and follow-up at the project level, including the establishment of a complaints mechanism to signal cases of non-compliance. Global Unions have offered to cooperate with the World Bank and the regional development banks in the implementation of the requirements.

30. Although much progress has been made in incorporating CLS requirements for project lending, Bank loans used to finance restructuring of government services or enterprises are not submitted to the same requirement. The World Bank needs to update its social and environmental safeguards to ensure that child labour, forced labour and discrimination against certain categories of workers are not involved, and freedom of association and collective bargaining rights are respected in all Bank-financed activities**. The Bank should use the opportunity of reviewing its**

[6] 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).

safeguards policies to institute a Bank-wide requirement for respecting the core labour standards.

Conclusion

31. Global Unions urge the IMF to intensify its work on a new policy framework that breaks with the *"Washington Consensus"* policies developed three decades ago, so as to respond to the immense current challenges of persistent high unemployment and vastly increased inequality. The IMF should use its expertise and coordinating capacity to encourage the adoption of a global regulatory framework for financial sector regulation and the adoption of a *financial transactions tax* by as many countries as possible. The Fund should also use its upcoming conditionality review and the lead analytical role it is assuming for the G20's Mutual Assessment Process to encourage member countries to adopt policies consistent with efforts to reduce inequalities and the employment deficit. The World Bank should also move in this direction and use the occasion of the adoption of a new social protection and labour strategy and a review of social and environmental safeguards to support the creation of decent work. Finally, both IFIs must respond to the serious emerging challenges of climate change and environmental degradation.

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