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World Bank on the wrong track to more jobs for young people

Brussels, 16 September 2006: As the World Bank launches its annual flagship publication, the World Development Report 2007: Development and the Next Generation, the global labour movement laments its approach on how to get more young people into employment.

"The World Bank rightly recognises that more and more young women and men are unemployed or toil in underpaid and exploitative conditions. But it doesn't address this problem adequately and it prescribes the wrong medication for how to fix it. Indeed, many of the Bank's proposals will only create greater troubles for the world's youth", said Guy Ryder, General Secretary of the International Confederation of Free Trade Unions.

This year's World Development Report is on youth, defined as the group aged 12-24, and focuses on the main transitions that young people go through. One of these is 'going to work', which is also the title of a main chapter in the report. Here the Bank attacks a series of labour market institutions such as minimum wages, unemployment benefits and dismissal rules as the main cause for youth unemployment.

"The World Bank has done away with the carrot and seems to think that the stick is what it takes to put young people to work. They fail to see that young people don't choose to stay unemployed but are forced to be so by a global economy that doesn't create enough jobs", Ryder continued, emphasising that though the world has experienced growth rates of 3.8 percent per year on average over the last ten years, the world's employment ratio has declined with 1.4 percentage points, while youth unemployment climbed from 70 to 85 million from 1995 to 2005.

"The first step in beating youth unemployment should be to repair the many dysfunctions of the global economy that international institutions like the World Bank themselves are responsible for", Ryder said and was complemented by Willy Thys, General Secretary of the World Confederation of Labour: "It is indeed the Bank's own standard policies and conditionalities - government austerity, deregulation, privatisation and liberalisation - that has created many of the problems the report tries to address, such as growing poverty among young people and the fact that a majority of youth, particularly young women, only can find work in the informal economy".

"The analysis and recommendations of the World Bank are one-sided and narrow", Thys continued and said: "It is a shame that what is supposed to show the prime of the Bank's research capability is as biased and selective as it is in its use of evidence. Again and again it only cites sources that support its agenda of deregulation and liberalisation while ignoring those that might show a different result. The irony indeed is that it ignores several World Bank studies* that conclude the opposite of what the WDR 2007 has chosen to say," Thys concluded.

"The World Bank should take a more comprehensive approach to youth employment, which should also include more attention to gender equality. To ensure decent work for more young people, policies should focus on 4 issues", Ryder said. "Creating more decent jobs for young people; ensuring the quality of existing and new jobs; enhancing skills, qualifications and access to education; and improving the transition between school and work as well as shortening the time youth might find themselves unemployed. The Bank does mention skills, qualifications and transitioning but ignores general job-creation and, in fact, undermines the quality of much work", Ryder ended.

The World Development Report 2007: Development and the Next Generation can be accessed here: http://www.worldbank.org/wdr2007

The ICFTU represents 155 million workers in 241 affiliated organizations in 156 countries and territories: http://www.icftu.org ICFTU is also a member of Global Unions: http://www.global-unions.org

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* The WDR 2007 cites a study that concludes that increased minimum wages in Brazil led to job losses. However, it doesn't mention another recent paper, presented at a World Bank conference no less, which concluded that minimum wage increases in Brazil were effective in raising the incomes of poor workers in both the formal and informal economies, but that "no evidence of negative employment effects is found in either sector" (Sara Lemos, "Minimum Wage Effects in a Developing Country", World Bank/IZA Conference on Employment and Development, Berlin, May 2006, p. 21).

Moreover, two studies, both several years old, are cited to prove the negative impacts of employment protection legislation (EPL) in OECD countries, but WDR 2007 fails to mention that the OECD itself recently questioned the claim that weaker EPL means higher unemployment in a reassessment of its Jobs Strategy. Specifically with regards to youth in South Eastern Europe, a World Bank study not mentioned by the draft WDR 2007 found that "there is no evidence that ... youth in the most deregulated labor markets experience better labor market outcomes" (World Bank, Young People in South Eastern Europe: From Risk to Empowerment, 2005, p. 72-73).

WDR 2007's opinion, that minimum wages are an unnecessary evil, is so strong that it ignores any negative impact of eliminating or reducing minimum wages. Some of these negative effects are reduced income, increased poverty levels, or exacerbated inequalities between young and older workers (if only young workers' minimum wages are decreased). A World Bank publication on labour markets in the transition countries of CEE and CIS showed that the countries with relatively high minimum wages had lower income inequality than those with lower or no minimum wages (World Bank, Enhancing Job Opportunities in Eastern Europe and the Former Soviet Union, 2005, p. 16-17).

The WDR 2007's selective citations extend even to previous WDRs. WDR 2006 on Equity and Development is summarized as a discussion on "why governments intervene in the labour market and how poorly designed or inappropriate policies can make things worse for equity and efficiency". But in fact, WDR 2006 actually includes several passages on the importance of labour regulations: "Unlike the markets for many commodities, labor markets generally are not competitive.... This can lead to unfair and inefficient outcomes when the bargaining position of the workers is weak." WDR 2006 further states that, left to themselves, private markets often result in underpaid workers, hazardous working conditions, discrimination against vulnerable groups and "also do a poor job of protecting workers against the risk of unemployment" and that appropriate public interventions, i.e. labour market regulation, "can improve market outcomes and lead to significant equity gains" (WDR 2006, p. 186).