Trade Union World Briefing

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Public Services or Private Profits

With unfair dismissals, non-respect for union rights, increasing charges for public utilities and increasing inequalities, the privatisation policies advocated by the World Bank and the IMF have failed in many countries to produce the anticipated "value for money and efficiency" that were expected. The ICFTU maintains that the international financial institutions (IFIs) bear much of the responsibility for these failures. This is the position put forward by the ICFTU in a 40-page study (1). This paper highlights the main the issues at stake.

Link to study: http://www.icftu.org/www/pdf/report_ifi2002_Priv.pdf

Photo: ICFTU

In March 2002, more than 5,000 employees of the South Korean electricity company KEPCO (Korea Electricity and Power Corporation) called a national strike protesting at the government's decision to privatise their company. Ever since the monetary crisis which shook the region in 1997, the World Bank has been advocating the implementation of such programmes and Kim Dae Jung's government is firmly resolved to follow its advice. The government's response to the unions' decision was the arrest of several union officials, the firing of 200 workers and the shutting down of websites used by the Korean Confederation of Trade Unions (KCTU). The workers kept up the pressure while the government threatened to lay off the entire staff.

In June 2001, the population of the township of Oswego in South Africa demonstrated against the privatisation of the electricity company Eskom by refusing to pay energy bills which had shot up by 400%. Faced with government plans to sell off other companies over to the private sector (in particular its airports and national parks), the dispute over privatisation intensified and resulted in several national strikes being called by the Congress of South African Trade Unions (COSATU).

Recently, the international scene has witnessed a spate of such events. All too often unfair dismissals, failure to respect trade union rights, rocketing prices for basic services, growing inequalities (see examples below) and the implementation of privatisation policies have disastrous consequences for the world of work and among the most vulnerable groups of people. To the unions, these effects are unacceptable. Unions are confronted with the reality of privatisation and have not automatically opposed every case. They are asking the

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question of how justifiable such policies are in certain sectors, are concerned about their implementation without suitable regulations, and are critical of how the international financial institutions are taking over the decision-making which precedes the launch of such policies. For many countries, privatisation is in fact a prerequisite for obtaining the assistance of the international financial institutions (IFIs). Consequently, the unions are calling for greater transparency in the decision-making processes which govern these transactions and for better consultation of both the workers affected and those parts of society that are upstream of decisions of this type. Following the wave of bankruptcies which have shaken a number of major companies over the last few months, the unions are asking these questions with even greater insistence. The policies of IFIs seeking to promote privatisation and encourage countries to open up to foreign investments were put in place based on the idea that such companies are fundamentally more efficient and less easily corruptible than a fair number of governments in developing countries. Reality has proven otherwise.

IFIS' PRIVATISATION POLICY DIRECTLY IN THE UNIONS' LINE OF FIRE

Rather than being a lengthy treatise, this report is based on a number of case studies concerning the chaotic experiences of privatisation by workers from Pakistan, Ghana, Belize, Mexico and Eastern Europe. All these examples show how several privatisation programmes adopted at the recommendation of the World Bank and the IMF resulted in mass redundancies, the scaling down of services (a measure which particularly affects women) and price increases, yet failed to improve the efficiency of the economy as a whole. According to the unions, such failures are particularly frequent when the country does not have a suitable legal and institutional environment, financial institutions which function well or an adequate regulatory framework. The World Bank has also frequently awarded funds for social protection on condition that the relevant public authorities agree to reduce the level of existing public programmes. The IMF has often advised governments to cut their public expenditure on social protection or to refrain from setting up any new public programmes.

Yet in spite of the many failures of their political prescriptions, the World Bank and IMF have continued to promote these very same programmes. But their arguments to continue these practices are far from compelling. The case of Argentina is particularly revealing. Faced with the failure of the country's currency, the IFIs tried to portray themselves as 'innocent bystanders' who had reluctantly subscribed to decisions taken exclusively by Argentina. But it is no coincidence that during the 1990s Argentina, with the support of the World Bank and the IDB, enforced a radical privatisation programme, while the World Bank encouraged the developing countries to move towards rapid privatisation with mixed results. Of course, the public authorities in Argentina could also be criticised for having followed the advice of the World Bank to the letter. Until at least 2001, on several occasions the international monetary institutions insisted that loans from the IMF would only be awarded on condition that Argentina retained its monetary regime- i.e. linkage of the peso to the dollar- but are now maintaining that Argentina took this decision of its own accord. Some also believe that the measures taken in favour of partial privatisation of the present distribution pension system could be a direct cause of the financial crisis in Argentina.

REFORMS IN SIGHT?

After long having denied the weaknesses which its privatisation programmes may have had and remained unflinching in the face of criticism voiced by unions and other groups, today the World Bank admits that the model of development it advocates should be adjusted. In this spirit, the World Bank published a new version of its private sector development strategy (PSD) and has pledged to step up its consultation with trade unions. In the unions' opinion, the new text is very disappointing.

More than being a strategy for creating an attractive climate for private sector investment and job creation, the PSD policy essentially sets out basic rules which limit the activities of the public sector. For example, where water and electricity supplies are concerned, the document stipulates simply that "unjustified entry barriers to private companies should be removed". In the areas of health and education, the document states that "public provision of basic services is also a key component" of the strategy, especially when there are "positive externalities" such as public financing. The unions have pressed for an in-depth review of this strategy, arguing that even in the developed capitalist countries these (basic) services are in public hands. As the unions have pointed out, by proposing to entrust the provision of these services to private companies intent on making a profit, the people most at risk may well be those who find themselves denied access. Moreover, this policy generally ignores both the problem associated with setting up adequate regulatory controls

In Brief

Today, the World Bank claims to be more concerned to take account of the consequences for employment of its privatisation policy programmes. Indeed, it is the bank itself which maintains this (1), specifying that since 1990 it has supported adjustments relating to employment policy in no less than 50 privatisation and restructuring operations conducted by companies around the world by identifying the staff requirements, putting in place redundancy and retirement plans, financing programmes and devising communications strategies that can better explain such decisions.
However, in the report written by the economist Sunita Kikeri, the World Bank adopts a markedly different tone, clearly stating that strong trade unions are an obstacle during negotiations on redundancy and retirement payments. Instead of viewing these programmes as a fair social measure for those who have devoted a significant part of their life to their company, the World Bank says that this is trying to "buy labour support and allow privatisation and its benefits to happen." In the Brazilian railways, the agreements concluded entailed the payment of 18 months' salary, in Argentina and in Bangladesh, they managed the equivalent of two to three years' salary, measures which the World Bank deems particularly costly. The World Bank even speaks of "excessive generosity" in the cases of the Ghanaian and Tanzanian workers made redundant. Nevertheless, it does propose accompanying these measures with training programmes that allow workers who have been laid off to find employment in smaller companies acting as subcontractors for new private companies.
Although well meant, the unions are warning that this proposal is potentially dangerous, since the transfer in question is often made at the expense of benefits that workers had previously wrested.

(1) World Bank-Civil Society Collaboration- Progress Report for Fiscal Years 2000 & 2001.

with regard to newly privatised services and the situation of employees working for the services in question. In addition, the financing plan proposed could favour multinationals to the detriment of national suppliers, which is not good for the respective country's development.

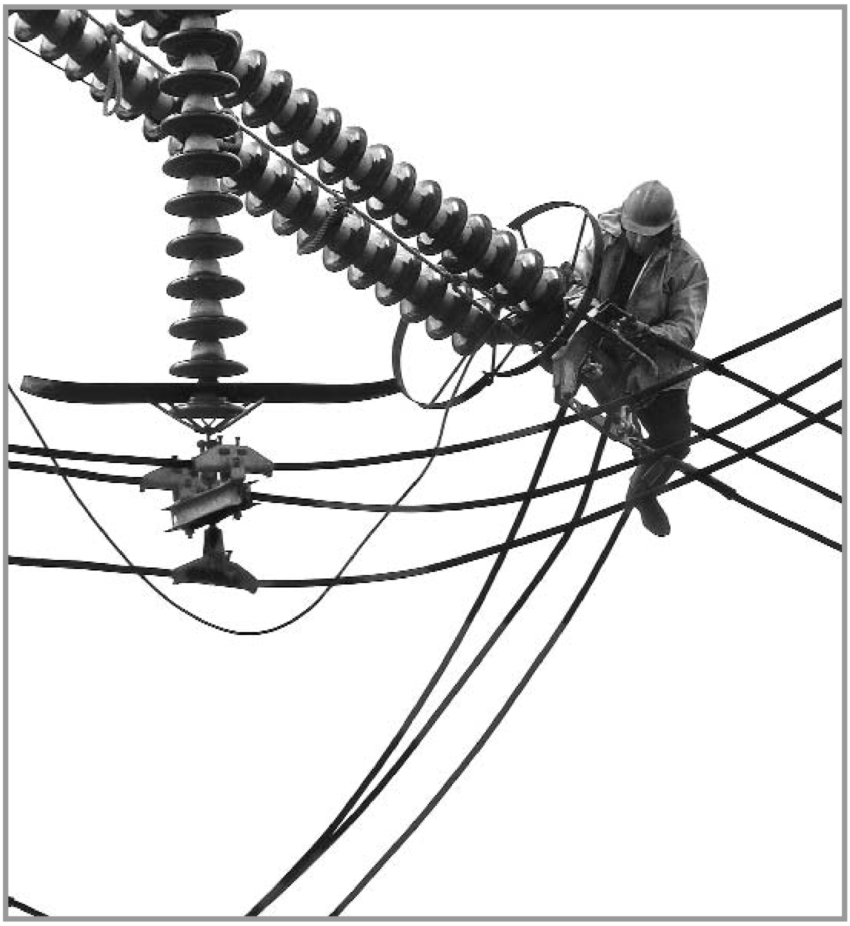

Photo: Global Pictures

A VERY DIFFICULT DIALOGUE

'To take better account of the social consequences of privatisation policies' has recently become the new creed of the World Bank. Thus in a recent report, the World Bank gave a detailed account of its meetings with trade unions as well as with other actors in civil society, saying that their commitment is now 'at the heart of the approach it wants to take to development'.

Citing several significant meetings which have taken place with the ICFTU, its regional organisations and different international trade union federations during 2000 and 2001, the World Bank now claims that this dialogue "reflects the Bank's acknowledgement of the contribution that constructive relations can make to our economic development mission". Trade unions in the following countries have been consulted: Argentina, Brazil, Honduras, Malawi, Albania, Ghana, Bolivia, Uganda, Mozambique and Poland. In the case of Argentina alone, the World Bank recognises that "some deep differences in perception" were unearthed but that the sessions were conducted "in a climate of mutual respect". However, for all that, do these soothing statements really mean that the World Bank is taking better account of the impact of privatisation on workers and trade unions? The unions are doubtful. One of the few documents to make explicit reference to this was a paper written by economist Sunita Kikeri in January 1999 entitled: "Labour redundancies and privatisation: what should governments do?".

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That document highlights the rather disconcerting analysis of the World Bank and its dealings with the unions. Although the Bank admits it would be desirable for governments to involve workers and their representatives in the privatisation process, it never mentions the idea that this dialogue could happen upstream (i.e. before the decision to privatise) or even, more fundamentally, that the process itself could be called into question by the unions because it is supposedly flawed. And yet for the unions these two questions are essential, and representatives of Public Services International (PSI) and the International Transport Workers' Federation (ITF) participating in these meetings made this an absolute precondition for the continuation of these talks with the IFIs. Despite the promises made by the World Bank, nothing has been put down on paper since. During the last meeting with the World Bank in July 2002, the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF) and Union Network International (UNI) added their voices to those of their colleagues to reiterate this demand. Representatives of the World Bank were upbeat: "The World Bank has often rejected privatisation as the preferred option and has called on numerous occasions for the closer involvement of the unions." This extremely bold claim evidently fails to convince unions.

WHAT ARE THE UNIONS DEMANDING?

As far as unions are concerned, only limited changes have taken place at the IMF and the World Bank. There is little common ground between the prescriptions of the latter and the mission conferred upon the ILO and the United Nations in general, namely to eradicate poverty. It is clear that urgent measures have to be taken to try to increase legitimacy in the functioning of multilateral world institutions with decision-making powers.

Apart from their desire to be included in any decisions regarding the establishment of a policy of privatisation and of an adequate regulatory framework, unions are demanding that the policies of the IFIs fall into line with the ILO core labour standards. To this end, the IFIs could submit all their proposals which may potentially impact on labour standards to the ILO for examination. In addition, the World Bank should refuse to finance the restructuring of companies or sectors where workers are denied the right to join a trade union or where, in those instances where a trade union does exist, the company management refuses to negotiate with it. ●

Case studies

Pakistan: Gagging trade unions to privatise in peace

In December 1997, Pakistan received a loan of $250 million from the World Bank. The awarding of such a loan is accompanied by precise demands, such as those imposed on the Pakistani authorities, to extend its privatisation programmes. In 1998, in flagrant violation of the core labour standards of the ILO (freedom of association), Pakistan banned all trade union presence in certain public sectors (electricity, water, airports and ports). The authorities argued that "the ban was necessary to make the public sector utilities financially viable before privatising." However, this decision also - indeed, above all - was part of a long conflict between the government, the publicly owned electricity company WAPDA and Hub Power Co (Hubco), an independent electricity producer supported by the World Bank. The whole story began back in 1997 when, under pressure from the government, WAPDA agreed to sell part of its electricity to Hubco at a higher than normal price. One year later, with WAPDA losing money, the IMF pushed the government to raise electricity charges by 15% and to absorb the company's debts. The government rebelled, accused Hubco and other independent energy producers of corruption, and terminated Hubco's contract. Some months later, the government announced a price cut of 30%, and the IMF responded to this by postponing the award of a loan worth $5 billion to Pakistan. The message clearly got through because in mid-October the government asked the army to take control of WAPDA to put an end to the corruption there and boost the company's productivity. It was at this juncture that the government also decided to ban trade unions. In 1999, in another gesture designed to appease the World Bank, the government announced that it was allowing five new foreign companies to build power stations and that it planned to raise the price of electricity. The trade unionists from WAPDA condemned this decision, arguing that the government should above all allow public companies to extend their own capacity and that they could certainly do so at costs lower than those of independent energy producers. They also stated that the tariffs paid to these generators consequently exerted tremendous pressure on national companies and on consumers. Some weeks later, the Pakistani army sent 30,000 soldiers to take control of a number of plants run by WAPDA, thus depriving 100,000 workers of their fundamental rights. It was only under pressure from the international trade union movement (including Public Services International) and after the unions lodged a complaint with the ILO that in August 2000 the government decided to finally lift the ban. In none of their subsequent reports on Pakistan do the World Bank or the IMF refer to the violation of trade union rights committed by the government in the course of introducing their reforms. Today, the assessment of the privatisation process is far from positive. According to trade union activists at WAPDA, the supply of power by independent producers accounts for one third of its generating capacity but swallows up two thirds of its annual revenue. Workers say they have seen their salaries frozen under serious budget cuts and are living in a state of permanent stress which is leading to a very high number of accidents each month. ●

Ghana: anti-privatisation trade unionists branded 'leftist sympathisers'

In Ghana, the Trade Union Congress (TUC) is at the head of a national coalition opposed to the privatisation of the water sector, a project approved by the World Bank. In October 2001 the General Secretary of the TUC publicly rejected this option, arguing that its motivation was solely profit-seeking and was therefore unacceptable for the least privileged Ghanaian people who would no longer be able to afford the essential commodity of water. This, of course, was an argument that the government rejected out of hand. Although this was not the country's first (bad) experience in this matter, Minister of Finance Yaw Osafo Maafo was positive this time: "We will do it carefully and transparently to the benefit of all Ghanaians". However according to two organisations that carried out a detailed study of this issue, the government has patently failed to deliver on its promises: "It appears that the Government of Ghana, with the backing of the World Bank, has concluded that privatisation of the urban water system is the appropriate policy option for the country. Unfortunately, there has not been broad-based, open public discussion among the government, citizens and donors about the full range of alternative water management options." Today, the World Bank maintains that it is not really engaged in privatisation, but is rather 'leasing' the water sector to private operators. However, come the end of the process, two foreign companies (Suez Lyonnaise des Eaux and Bouygues, whose annual turnover figures far outstrip the GNP of Ghana) will be left in charge of the maintenance and management of the entire country's urban network. Supremely confident, the national authorities are also maintaining that they will be able to control and prevent any arbitrary rises in prices. Instead of concluding constructive contacts with the trade unions, the government is stepping up its political attacks on them and is today branding their representatives 'leftist sympathisers'. ●

Mexico: resistance of trade unions bears fruit

Since 1994, the World Bank has been pushing Mexico to accelerate its privatisation process, in particular within its power production companies. In an unequivocal report, it stated that the solution for ensuring an undistorted development of the electrical sector is opening the markets, an urgent measure given the fact that the demand for power in Mexico is increasing by 5% per year. In 1999, President Zedillo decided that he had enough political support to take the offensive. In February, he submitted a proposal to Congress calling for the opening up of the electricity sector (generation and distribution) to private investors. He called for the dismantling of both LFC (Light & Power) and the Federal Electricity Commission CFE, the power generation company which supplies 90% of the country's electricity. The argument used by President Zedillo was that he could not finance these investments without making drastic cuts in the budgets allocated to education, health and other social projects. In anticipation of these measures, the trade union linked to LFC began to get organised. Starting in February 1999, it collected 2.7 million signatures against the measures. It also managed to rally certain MPs to its cause. On Labour Day, its leader declared that Mexicans were capable of committing themselves to their own development. Addressing the president, he said: "If you are really on the side of power workers, give us the chance to prove it and leave our company, LFC, in our hands". During his presidential campaign, Vicente Fox declared that he wanted to pursue the privatisation policy initiated by Zedillo, but strong resistance from trade unions and other actors in civil society made him change his mind. In January 2001, President Fox announced that he would not sell or privatise the assets of CFE or LFC. In March 2001, the trade union and LFC's management signed a new collective agreement. However, this victory on no account means that any danger has been permanently averted. Where the international financial institutions are concerned, the lobbying is continuing. In several of its reports, the World Bank has continued to criticise the ponderousness of the privatisation process, particularly in the energy sector, and has encouraged the government to review its labour laws which it believes afford excessive protection to workers. ●

Belize: privatisation of the health sector or fait accompli policy

In 2000, thanks to a $10 million loan given by the Inter-American Development Bank (IDB), the Belize government announced its intention to reform the country's public health sector. This came as a complete surprise to the workers and the unions representing them, who claimed that the decision had been taken in defiance of national and international laws and without taking into account the needs of the population. For the trade unions, which had not been consulted at any point during the process, these measures were difficult to accept, especially as in the last two decades, and with very limited resources, public service workers had achieved very encouraging results (lowering the infant mortality rate, extending life expectancy, reducing the number of cases of malaria, and so on).

The public services trade union (affiliated to Public Services International) and the NTUCB therefore headed a protest movement which pursued several different lines of attack. Firstly, they criticised the fact that the planned changes essentially meant the establishment of a new private, completely remodelled network, whereas the structures already in place could have been reinforced and enriched. Secondly, although workers in the sector do have certain rights under the country's working regulations and international labour conventions signed by the government, these rights were systematically violated when the agreement was being drafted and put into place.

> Privatisation was imposed for ideological reasons without taking account of the situation on the ground and without launching any dialogue with the relevant unions.

Thirdly, all of the analyses carried out by the IDB on the situation in the healthcare sector centred solely on financial and commercial factors, almost wholly ignoring the healthcare needs of the population itself. Fourthly, the loan included a part to be used for financing an information campaign on the changes to be prompted by the loan, an amount which according to the unions should have been used to conduct consultations with the people best placed to determine the real needs of the population.

Lastly, the changes introduced with respect to social protection (a unilateral increase in social security before the result of any prior study on the subject) heavily penalised people falling into the middle-income bracket. And even though in this specific instance the pressure was not brought to bear by either the IMF or the World Bank, it is still all part of the same approach. Privatisation was imposed for ideological reasons without taking account of the situation on the ground and without launching any dialogue with the relevant unions. ●

Eastern Europe: Ten years of privatisation and decline

When the Berlin Wall came down, over 10 years ago, the former Communist bloc countries embarked on one of the largest privatisation projects ever carried out. In Russia alone, 15,000 state-owned companies have been sold to private shareholders. In many of the countries concerned, restructuring has meant mass redundancies. In this particular context - the transition from a centrally planned economy, where jobs are guaranteed for life, to a market economy – where some restructuring is unavoidable. The unions insisted that industrial and employment policies be developed so as to offer high-quality jobs to those workers hit by restructuring and the effects of privatisation. The national organisations affiliated to the ICFTU have often gone along with the privatisation of industrial assets, especially state-owned ones, whilst emphasising the difference between these and basic services in which the state should maintain a significant share. The unions also affirmed that successful restructuring should be accompanied by regulatory and institutional frameworks as well as suitable social safety nets. Indeed, seldom listened to and seldom consulted, the unions have not managed to ensure that these recommendations were taken on board in the policies implemented by the IFIs. Thus in June 2002, unions in Georgia launched a campaign to protest against the mass redundancies announced by the Irish company which had won the contract financed by the World Bank to manage two state-run energy companies. The unions were not consulted despite two collective agreements that required the companies involved to consult the unions before announcing any extensive layoffs. On the ground, restructuring carried out in the name of greater flexibility, supported by the World Bank, has had the effect of reducing the number of long-term and fixed-term employment contracts and has often been accompanied by other measures that have a negative impact on workers such as the reduction or complete removal of redundancy payments, the erosion of protection against redundancies, lengthier trial periods and the undermining or even cancellation of collective agreements. Today, in its evaluation of the various causes of these failures, the World Bank has come to the same conclusion as the trade unions. In a recent report (entitled "Transition: the first ten years", dated January 2002), it revealed that in fact the transition has been characterised by a general economic decline and a massive increase in inequalities. In the year 2000, of the 27 countries analysed in the region 22 had a GDP that was below the equivalent figure a decade ago. ●

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