



Dialogue on
Globalization

OCCASIONAL PAPERS

GENEVA

N° 9 / October 2003

Katherine A. Hagen

**Policy Dialogue between the
International Labour Organization
and the International Financial
Institutions: The Search for
Convergence**



Dialogue on Globalization

Dialogue on Globalization contributes to the international debate on globalization – through conferences, workshops and publications – as part of the international work of the Friedrich-Ebert-Stiftung (FES). *Dialogue on Globalization* is based on the premise that globalization can be shaped into a direction that promotes peace, democracy and social justice. *Dialogue on Globalization* addresses “movers and shakers” both in developing countries and in the industrialized parts of the world, i.e. politicians, trade unionists, government officials, businesspeople, and journalists as well as representatives from NGOs, international organizations, and academia.

Dialogue on Globalization is co-ordinated by the head office of the Friedrich-Ebert-Stiftung in Berlin and by the FES offices in New York and Geneva. The programme intensively draws on the international network of the Friedrich-Ebert-Stiftung – a German non-profit institution committed to the principles of social democracy – with offices, programmes and partners in more than 100 countries.

This Occasional Paper is published by the Geneva office of the Friedrich-Ebert-Stiftung.

October 2003

Table of Contents:

1 Executive Summary	5
2 Introduction	8
3 Employment Promotion and Active Labour Market Policies	11
1. Divergence over Structural Adjustment	11
2. The Social Summit	12
3. Employment Issues and the IMF	13
4. Employment Issues and the World Bank	14
5. The Impact of the Asian Financial Crisis on the Policy Dialogue	15
6. Employment and the WTO	16
4 The Issue of Core Labour Standards	19
1. At the Fund	19
2. At the World Bank	22
3. Core labour standards and the WTO	27
5 Social Protection	32
6 Privatisation	34
7 The Future of the ILO Policy Dialogue with the IFIs	35
8 Recommendations and Conclusion	36

Preface

At the UN Millennium Summit, held in September 2000, world leaders made a strong commitment to reduce poverty, strengthen international peace and disarmament, protect the environment and strengthen the UN. With respect to strengthening the United Nations the resolution adopted by the General Assembly (among others) in VIII/30 resolved therefore: “To ensure greater policy coherence and better cooperation between the United Nations, its agencies, the Bretton Wood Institutions and the World Trade Organisation, as well as other multilateral bodies, with a view to achieving a fully coordinated approach to the problems of peace and development”.

Founded in 1919, the International Labour Organization (ILO) became the first specialized agency of the UN in 1946. Its unique tripartite structure with governments’, employers’ and workers’ representatives participating in decision-making, and the central focus on social dialogue, the promotion of social justice and internationally recognized human and labour rights has produced an exceptional international body. The Friedrich-Ebert-Stiftung (FES) as foundation of “social democracy” has strong traditional links with the ILO, many areas of cooperation, and places high expectations on the ILO’s work and its role in “global governance”.

When launching the “World Commission on the Social Dimension of Globalization” in February 2002, ILO Director-General Juan Somavia underlined “The Commission is an unprecedented effort to promote international dialogue on ideas to make globalization more inclusive, at a time when the debate is dominated more by polemics and preconceptions than by facts” and added “the time for consensus-building and new thinking around these difficult issues has arrived. ...For some, globalization has been an instrument for progress. It has created wealth, expanded opportunities and provided a nurturing environment for entrepreneurship and enterprise. But for others, it has exacerbated inequalities and insecurity. They fear that the risks are too great, the benefits too small”.

In practice, however, the impression remains, that policy coherence and coordination between most important actors in global governance is rather limited, if not non-existent. International organizations seem to work on separate terrains and under conflicting policies. Dialogues on top executive level seem to have little impact on country or program level and on a more institutionalized communication and cooperation on working levels. The “social dimension of globalization” seems to be exclusively left to the ILO as a “special playing field” in a compensatory sense, whereas the Bretton Woods Institutions and the WTO have direct impact on “hard” policy making, but pay little attention to employment policies that are essential for the social welfare of the majority of people worldwide.

As a former ILO Deputy Director-General for External Relations from 1994 to 1998 and Executive Director for Social Dialogue from 1998 to 2000 Katherine

Hagen (“Hagen Resources International”) was directly involved into the dialogue between the ILO and (mainly) the Bretton Woods Institutions. She has a wealth of insights and experiences, the FES Geneva office wants to make available through this publication.

A further article by Katherine Hagen on “The International Labour Organization: Can it Deliver the Social Dimension of Globalization?” is forthcoming soon.

Dr. Erfried Adam
Director, Geneva Office
Friedrich-Ebert-Stiftung

1 Executive Summary

The present paper describes and evaluates some of the key issues that have unfolded in the policy dialogue between the International Labour Organization and the international financial institutions. Its focus covers the past 15 to 20 years. Throughout this period, the dialogue has been pursued at the instigation of the ILO and its constituents. The objective of the dialogue has been to persuade the international financial institutions to accept the ILO's positions.

Thus the paper concentrates on the issues as they have been initiated by the ILO or its constituents. These issues include employment and active labour market policies, core labour standards, social protection, and the fundamentals of social dialogue itself. The ILO has sought to establish a policy dialogue on these issues primarily with the "Bretton Woods" institutions – the World Bank and the International Monetary Fund. However, the issues have also played a role in the international policy debate over the linkages between the ILO and the World Trade Organization.

The policy dialogue and potential for policy convergence are quite different vis-à-vis the Bank and the Fund than they are toward the WTO. For the former, the dialogue has been extensive, driven by policy conflicts over structural adjustment and privatisation. The paper shows how the policy dialogue evolved in each of the issue areas and highlights the impact of the Social Summit and of the East Asian financial crisis. There are significant signs of convergence, especially in the increasing emphasis placed the Bank and the Fund on social as well as economic development. Nonetheless, there continue to be differences, primarily over matters of priorities and participatory processes.

In the ILO/WTO context, on the other hand, dialogue is officially non-existent, though it is not clear either what the divergence of policy might be if there were a dialogue. The impasse on the linkage between trade and labour standards has meant complete blockage of a normal policy dialogue between the ILO and the WTO.

If a policy dialogue were to come about between the ILO and the WTO, it should extend far beyond trade and labour issues to encompass the interactions between trade and employment, the scope and nature of social protection systems, and the importance of participatory processes of policymaking. The desirability of such a policy dialogue between the ILO and the WTO on these issues is reinforced by the growing awareness of the importance of the social dimension of globalization but also of the interaction between trade and development. Thus the policy dialogue on employment, on social protection, on good governance, and on basic worker rights is increasingly a trade-related policy dialogue.

As this takes place, the international policy dialogue involving the ILO and the international financial institutions is increasingly a dialogue about policy coherence

as opposed to policy convergence. The Millennium Development Goals and the commitments made at the Monterrey and Johannesburg Summits, as well as the Doha Development Agenda, call for greater coordination among the international institutions to promote development, with a particular emphasis on the role of trade in promoting development.

In this context the ILO has an established reputation for expertise on employment and job creation strategies, as well as on social protection schemes and the promotion of social dialogue. These strengths should serve as a logical base for a broadened institutional relationship between the WTO and the ILO, in the same way that they have featured prominently in the ILO's relationship with the Bretton Woods institutions. Thus the paper's first recommendation is that the ILO should emphasize the importance of the broad array of shared concerns about employment and social protection to embark on a more comprehensive dialogue between the ILO and the WTO – as well as the Bank and the Fund.

Even on labour standards one can see some possibilities for multi-institutional policy coherence. The EU is proposing a constructive strategy to accomplish this. The EU position emphasizes an incentives-based approach and a multi-faceted approach to core labour standards, and not a sanctions-based approach. The EU has integrated core labour standards in its GSP programme, its development policy, and its Country Strategy Papers, and has decided in favour of a comprehensive campaign on child labour and a commitment to examine core labour standards in its own trade policies.

Such an incentives-based, multi-track approach to labour standards, then, is the present paper's second recommendation for the future policy dialogue. The resistance to any linkage between labour standards and sanctions from developing countries as well as from the business community would seem to suggest that consideration should be given to how the WTO itself might fit into such an incentives-based system. In addition, the ILO itself would need to establish a consensus among its own constituents on a common approach.

This brings us to the third and last recommendation formulated by the paper. How can the ILO play a significant role in a policy dialogue with international financial institutions whose resource base is so much larger than its own? And how can the ILO be a credible and legitimate advocate of its position when its own supervisory and implementation mechanisms are under attack? The ILO does have an important contribution to make, but it needs to become more effective and representative of work-related interests as well as of the ways in which these workplace interests intersect with community interests generally. The new multilateralism also calls for a readiness for new partnerships both within each organization and among the organizations of the international system. Thus the paper's third recommendation is that the ILO should improve its own approach to partnering as well as its own supervisory and implementation mechanisms.

In conclusion, the present paper shows how the policy dialogue between the ILO and the international financial institutions on employment, core labour standards, social protection, and privatisation has moved towards convergence. It describes

the evolution from the initial confrontations over structural adjustment to the convergence of thinking on the importance of social development to the growing awareness of the interaction between trade and development. It is time for this dialogue to move beyond the search for policy convergence to a partnering for policy coherence on trade, development, and social justice. Based on these three recommendations, the ILO's policy dialogue could become an integral part of a "new Renaissance" of multilateralism and a more coherent international system.

2. Introduction

Policy dialogue and policy convergence have been recurring themes in the strategy of the International Labour Organization in its relations with the Bretton Woods institutions. Starting in the late 1980s, the ILO and its constituents have sought changes in the policies of the World Bank and the International Monetary Fund with regard to employment promotion and labour market policies, core labour standards, and social protection policies. Underlying all of these issues has been a further message from the ILO that dialogue itself is essential for the effective implementation of policy. Although the response from these institutions has tended to be critical of positions taken by the ILO on issues of macroeconomic stability and structural adjustment, there has been significant movement toward policy convergence, especially since the Asian financial crises of 1997-98.

More recently, a further shift in the policy dialogue has occurred, concerning in particular the debate on trade and development. This shift is stimulating growing concern about the impact of globalization, and specifically the liberalization of trade, on developing countries. One result of this is a growing relationship between the Bretton Woods institutions and the World Trade Organization, quite apart from the ILO. In fact, the ILO has a very restricted institutional relationship with the WTO. This puts the ILO in a challenging position, specifically in the context of addressing the social dimension of globalisation.

The ILO has sought to establish a policy dialogue with the “Bretton Woods” institutions.

The present paper describes and evaluates the key issues as they have unfolded in the policy dialogue between the International Labour Organization (ILO) and the international financial institutions. The focus covers the past 15 to 20 years. The dialogue has been pursued at the instigation of the ILO and its constituents. The reason for this active pursuit of a policy dialogue is that the international financial institutions began to advance policy positions in the late 1980s and 1990s that were contrary to the positions of the ILO. The objective of the dialogue has been to persuade the international financial institutions to accept the ILO’s positions.

The present paper thus concentrates on the issues as they have been initiated by the ILO or its constituents. These issues include employment and active labour market policies, core labour standards, social protection, and the fundamentals of social dialogue itself. The ILO has sought to establish a policy dialogue on these issues primarily with the “Bretton Woods” institutions – the World Bank (the Bank) and the International Monetary Fund (the Fund). However, the issues have also played a role in the international policy debate about the linkages between the ILO and the World Trade Organization (WTO).

The policy dialogue and the potential for policy convergence are quite different vis-à-vis the Bank and the Fund than they are with the WTO. For the former, the dialogue has been quite extensive, and driven by policy conflicts over structural adjustment and privatisation. The paper shows how policy dialogue has evolved

in each of the issue areas and highlights the impact of the Social Summit and of the East Asian financial crisis. There are significant signs of convergence, especially in the increasing emphasis placed by the Bank and the Fund on social as well as economic development. Nonetheless, there continue to be differences, primarily over matters of priorities and participatory processes.

In the ILO/WTO context, on the other hand, dialogue is officially non-existent, though it is indeed not even clear what the divergence of policy might be if there were a dialogue. It is primarily the ILO's labour constituents who have sought to incorporate ILO labour standards in the policy framework of the WTO, but this objective has also been pursued by the governments of the United States and the European Union as well. On the other hand, the employers and the developing country members of the ILO have opposed this linkage. The result of this impasse has been the complete blockage of any normal policy dialogue between the ILO and the WTO, even though the WTO trade ministers have actually endorsed the ILO's core labour standards.

That is to say, the WTO is not necessarily pursuing policies that are in direct conflict with the policies of the ILO, and vice versa. Instead, what is at stake is the potential to use the WTO system of governance to advance the mission of the ILO in ensuring compliance with international labour standards. This is a debate that has yet to be conducted directly between the ILO and the WTO, although it certainly features in the debates that go on *within* each of these institutions. There are, of course, also broad ramifications bound up with the question of whether the WTO is sensitive to the social dimensions of globalization and whether trade liberalization is in itself a good thing for social justice.

Furthermore, the WTO is closely aligned with the Bretton Woods institutions in pushing for trade liberalization, and the Bretton Woods institutions also support the promotion of the free enterprise system, privatisation, and structural adjustments to facilitate free trade. So it is appropriate to include all three of these international financial institutions in this study on policy dialogue and policy convergence in relation to the ILO.¹ As the ILO's High-Level Commission on the Social Dimensions of Globalization prepares its final report, it may be anticipated that many of its recommendations will be directed towards encouraging the ILO to pursue a broad social agenda and to persuade the other international organizations to integrate social concerns more fully in their policies and programmes. It is certain that this would include the WTO as well as the Bretton Woods institutions.

The following sections of the paper will discuss each of the main issues of policy concern to the ILO in relation to the IFIs and the WTO – employment promotion and labour market policies, core labour standards, social protection policies, and privatisation policies. Where there has been policy convergence or non-convergence, this will be noted, along with its implications for the ILO.

¹ This study does not include the ILO's policy dialogue with the regional financial institutions. The issues have been similar, but their scope has not been global. While significant innovations, especially at the Asian Development Bank, have provided useful models for policy convergence at the global level, the focus of this paper – and the preoccupation of the ILO – is on the dialogue with the global international financial institutions.

It must be noted that the Bank and the Fund (though not yet the WTO) have considerably larger resources than the ILO.

Above and beyond policy ramifications, however, it must also be noted that the Bank and the Fund (though not yet the WTO) have considerably larger resources than the ILO. The Bank finances more education programmes than UNESCO, more health programmes than WHO, spends more on HIV/AIDS than any other international agency, and it has the potential to finance more workplace-oriented or labour programmes than the ILO.² The IMF, too, spends more on poverty reduction than the ILO or any other specialized agency.³ Some critics suggest that this dominance of the Bank and the Fund calls for defensive manoeuvres to “keep them out” of others’ jurisdictions, but this is hardly a realistic path to take. The ultimate solution for the ILO and its policy dialogue must inevitably be a search for policy coherence and not just the policy convergence that has driven the dialogue, as seen from the ILO perspective, for the past couple of decades. The present paper concludes with a set of recommendations for addressing this important shift in strategy.

² See the World Bank’s annual report for 2002.

³ The IMF’s current annual report, “Annual Report of the Executive Board for the Financial Year Ended April 30, 2002,” may be downloaded at: www.imf.org/external/pubs/ft/ar/2002/eng/index.htm

3. Employment Promotion and Active Labour Market Policies

Employment promotion is one of the four strategic objectives of the ILO, and it has been a major area of concern with regard to the impact of structural adjustment programmes on employment and job creation. This section discusses the origins of this concern, along with the evolution of policy that has contributed to a certain measure of policy convergence on employment and active labour market strategies with the Bretton Woods institutions. This is also the issue that is best suited for a broadened dialogue with the WTO.

The original concern about employment promotion at the ILO seems to have been sparked by the energy and financial crises of the 1980s. Up until then, the ILO had worked very closely with the World Bank on technical assistance projects, especially in labour-intensive public works projects. When these crises hit, the IMF shifted its own policies away from financial stabilization and surveillance by embarking on a policy of financing structural adjustment for economies in trouble, a shift that led the Fund well beyond its traditional role in financing temporary stabilization programmes. At the same time, the Bank also moved to augment its technical assistance programme, which had until then tended to be highly project-specific, with more general funding and guidance being made available to facilitate the comprehensive adjustment of developing country economies.

1. Divergence over Structural Adjustment

The policy advice provided by the Bank and the Fund in their structural adjustment programmes was very much influenced by the neo-liberal economic thinking of what came to be known as “the Washington consensus.” This economic philosophy came to pervade the secretariats of the two institutions. Free market competition and free enterprise were seen as the keys to economic development, and the advice for developing countries was to deregulate and demonopolize major segments of their economies, privatise para-statal enterprises in telecommunications, energy, transport, and basic commodities, open their economies to foreign direct investment, and enter the global marketplace.

Among the effects of these policies of the Bank and the Fund were significant pressures tending towards declines in wages and drastic cuts in public sector employment.⁴ The ILO’s constituents balked at these pressures. The promise of a resulting greater increase in private sector employment was either not forthcoming at all or seemed too far off to be a persuasive argument for the growing ranks of the unemployed in these countries. And since the public sector was the one place

The policy advice provided by the Bank and the Fund in their structural adjustment programmes was very much influenced by the neo-liberal economic thinking of what came to be known as “the Washington consensus”.

⁴ This kind of advice came to be part of the programmes of both the World Bank and the International Monetary Fund. As the Fund established its own “stabilizing” role in financing structural adjustment, the Bank also set up its own financing of structural adjustment for development purposes. The overlapping roles contributed to some tension between the two organizations, which, while efforts have regularly been made by Bank and Fund representatives to define respectively different roles, continues to show itself from time to time.

where labour was well organized in most developing countries, with the private sector far less well organized, this also meant a significant drop in union membership.

In 1987 the ILO convened the High-Level Meeting on Structural Adjustment and Employment to address this particular issue of the impact of structural adjustment on workers in developing countries.⁵ The participants at this meeting called upon the Bank and the Fund to modify their structural adjustment policies, to adopt more aggressive strategies geared to job creation in privatisation initiatives and less dramatic job losses in the public sector. The Governing Body also concluded that this called for an ongoing policy dialogue between the ILO and the Bretton Woods institutions.

The ILO, meanwhile, underwent a transition when Michel Hansenne was first elected to head the organization and took office in early 1989. As a former Belgian labour minister, Mr. Hansenne was a dedicated Christian Democrat and had close political rapport with the French Managing Director of the International Monetary Fund, Michel Camdessus. Thanks to this relationship, Mr. Camdessus accepted the invitation of the Director-General to speak to the ILO Conference in June 1991, where he presented the basic IMF position that structural adjustment and opening up to the global economy were steps necessary for developing countries to take.⁶ In response to these developments, the Governing Body requested a heightened policy dialogue and regular reports to the Employment and Social Policy Committee to evaluate progress in this policy dialogue. The Director-General recruited a Deputy Director-General specifically to manage this dialogue. The most prominent issues were to persuade the Bank and the Fund to show more sensitivity on employment concerns, to tolerate certain (higher) levels of inflation and fiscal stimulus activity aimed at economic growth and job creation, to engage in active labour market policies, and to engage in regular dialogue about structural adjustment with organized worker and employer interests in developing countries above and beyond the established and secretive dialogue, which was limited only to finance ministries.

2. The Social Summit

The Copenhagen Summit for Social Development was convened in March 1995, and it turned out to be an important milestone for the ILO.

Around the same time, the United Nations was preparing a global summit on social development that was to include a focus on three key issues – poverty eradication, social inclusion, and employment creation. This Copenhagen Summit for Social Development was convened in March 1995, and it turned out to be an important milestone for the ILO. The Summit endorsed a renewed commitment to full employment as an appropriate and urgent priority for all countries – “full, adequate and rewarding employment as the means to a sustainable livelihood for all.”⁷

The Bank and the Fund were active participants in the Social Summit, although they had also been engaged independently in reaching out to the ILO in the months

5 ILO. “High-level meeting on employment and structural adjustment, Geneva, 23-25 November 1987: Report of the meeting.” Geneva: ILO, 1988.

6 Address by Michel Camdessus, Managing Director of the International Monetary Fund, 10 June 1991, International Labour Conference, Provisional Record No. 8, 78th Session, Geneva, 1991.

7 See “Commitment 3” in the commitments enunciated in the Copenhagen Declaration on Social Development, available at: www.visionoffice.com/socdev/wssdco-4.htm#Commitment%203

preceding the Summit. For the first time ever, they invited the ILO to accept observer status at their annual meetings, beginning on the occasion of their 50th anniversary as international institutions, in September of 1995, in Madrid. The meetings echoed with talk about the accomplishments of these institutions and reflections on where to go next. There was quite a bit of discussion about how to improve their programmes, especially in the area of structural adjustment. Outside the meetings, furthermore, there were protests from “Fifty Years Is Enough” as well as by other critics of the Bank and the Fund. ILO discussions with Bank and Fund officials emphasized the need for positive employment strategies and transparent dialogue with the relevant parties, the workers and the employers, in each country.

ILO discussions with Bank and Fund officials emphasized the need for positive employment strategies and transparent dialogue with the relevant parties, the workers and the employers.

3. Employment Issues and the IMF

The Fund took the Social Summit as an occasion to prepare a comprehensive review of its work, with an understanding that social issues were not part of its own mandate but that the institution needed “to help design and implement well-targeted measures to mitigate the costs of adjustment.”⁸ At the Summit itself, Director-General Hansenne and Managing Director Michel Camdessus had renewed their personal relationship on an informal, one-on-one basis. This led to an official invitation to Mr. Hansenne to attend the IMF Interim Committee meeting six months later, in September, to follow up on the Social Summit and to establish a formal understanding of direct cooperation between the two institutions.

Following this Interim Committee meeting, the official Communiqué included a commitment to ongoing cooperation between the two institutions, with an understanding on the special mandates of each institution and the need for dialogue and cooperation that respected these different mandates.⁹ The cooperation at headquarters level between the IMF and the ILO was, from this point on, fully supported by both institutions, although the dialogue was not always harmonious. In fact, dialogue at times was very difficult because the IMF operated on the basis of a culture of internal review and external consistency of policy advice, whereas the ILO’s culture was one that involved almost no internal review and appreciation of the importance of public dialogue among diverse groups.

The agreement provided for regular review by the ILO of the IMF’s World Economic Outlook, a publication which includes an overview of the world economic picture, with a special focus on a particular topic. The ILO usually received the draft of this publication at such short notice that its policy advice was rarely incorporated in the final publication. However, the IMF in any case tended to see much of the policy advice offered by the ILO as outside ILO’s domain, for example, as regards macroeconomic policy advice as opposed to advice specifically directed to labour market policies.

The agreement also provided for cooperation at the country level, noting that each institution would seek to incorporate into its own workings the policy advice

8 “Social Dimensions of the IMF Policy Dialogue”, prepared for the Copenhagen Summit, at <http://www.imf.org/external/pubs/ft/pam/pam47/pam4701.htm>

9 IMF. “Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund”, IMF Press Release No. 95/51, Washington: October 1995. This document is available at: www.imf.org/external/np/sec/pr/1995/pr9551.htm

The ILO has a strong tradition of high-profile dialogue involving exchanges of views for the sake of looking for compromise and consensus among diverse interests.

The Fund and the Bank presenters tended to see their role as suppliers of information to the trade union participants, rather than as partners in a dialogue with them.

and expertise of the other. Three countries had already been “tested” for this cooperation – India, Costa Rica, and Zimbabwe. The experience made by the IMF in dealing with the ILO had been relatively smooth in India and Costa Rica, but it had hit some major bumps in Zimbabwe. These were largely due to different views about macroeconomic policy and some highly confrontational exchanges that made the IMF staff very cautious about renewed contacts with the ILO.

The main problem with the IMF was the need for external policy consistency and its distaste for public disagreements over policy. It is clear, for example, that there have been significant policy and procedural differences between the Bank and the Fund on structural adjustment issues, though they have rarely been made public.¹⁰ On the other hand, the ILO has a strong tradition of a high-profile dialogue which involves exchanges of views for the sake of looking for compromise and consensus among diverse interests.

Although the initial Zimbabwe confrontation was smoothed over, with commitments on both sides to seek to be more cooperative, there continued to be a certain tension between the ILO and the IMF on this matter of public disagreement over policy. A “new set” of six countries was chosen for close consultation at country level – Indonesia, Vietnam, India, Uganda, Ukraine, and Peru. Two major policy seminars were organized, primarily by the IMF but in cooperation with the World Bank and including the ILO and the international trade union secretariats, in Vienna, Austria, and in Harare, Zimbabwe. In both cases the ILO provided experts and facilitated the invitations to participants, but in both cases the Fund and the Bank presenters tended to see their role as suppliers of information to the trade union participants, rather than as partners in a dialogue with them. In neither case did the ILO message about the importance of dialogue seem to be fully appreciated by either the Bank or IMF staff.

There appeared to be quite a bit of disgruntlement within the IMF, particularly following the Zimbabwe seminar, over its dialogue with the ILO. Several exchanges were held to review the nature of the differences between the two institutions, but none of these thorny issues had been resolved before the Asian financial crises hit and everything changed.

4. Employment Issues and the World Bank

By way of contrast, the policy dialogue between the ILO and the World Bank in the 1990s proved even more difficult to develop than the dialogue with the IMF. In part, this was because there was no strong personal relationship between the Director-General and the top officials at the World Bank. Shortly before the Social

¹⁰ A recent example of a public argument over policy between the Bank and the Fund is illustrated by the exchanges between Joseph Stiglitz, the former Chief Economist of the World Bank, and Kenneth Rogoff, the (soon-to-be former) Economic Counsellor and Director of the Research Department at the Fund. These exchanges, however, are not technically a reflection of a public dispute between the Bank and the Fund because they were based on the personal views of Stiglitz in a recent publication entitled *Globalization and Its Discontents*, WW Norton (New York: 2002). Stiglitz is very critical of IMF policies during the East Asian financial crisis and argues that the IMF continues to pursue detrimental policies (fiscal austerity and high interest rates) in times of financial crisis. Rogoff and others argue that it was Stiglitz’s public criticisms of IMF policies during this crisis and while he was still at the Bank that contributed to their negative effects.

Summit in March 1995, the President of the World Bank, Lewis T. Preston, was diagnosed with cancer and suddenly resigned. His successor, James Wolfensohn, had not yet been appointed. At the Social Summit itself, the World Bank was represented by a vice-president in charge of human development, Armeane Choksi, who had little sympathy for social development issues. And throughout the initial outreach in the follow-up to the Social Summit, the World Bank remained very distant and patronizing when it came to the question of a one-on-one policy dialogue with the ILO.

On the other hand, it was through the follow-up to the Social Summit that the basis for potential convergence with the Bank on employment promotion policies was opened up. At the UN, the ILO was delegated responsibility for the follow-up activities to the Social Summit relating to employment. Thus the ILO was invited by the UN system's Administrative Committee on Coordination to chair an inter-agency task force on implementing the commitment to full employment and sustainable livelihoods.

Although several agencies were active on the task force, including UNESCO, UNICEF, and UNFPA, the main roles were played by the ILO, the World Bank, and UNDP. In this setting, it turned out that the Bank and the ILO had views that were more similar than the views held by either of these institutions and the UN Development Programme. That is to say, the UNDP held the view that sustainable development did not necessarily entail promotion of formal employment opportunities, whereas both the Bank and the ILO were of the view that it was only by boosting formal employment that other more informal employment opportunities could be improved as well.

The task force was commissioned to conduct six country studies – three by the ILO itself (Hungary, Nepal, and Chile), one by the UNDP (Morocco), one by UNESCO (Mozambique), and one by the World Bank (Indonesia).¹¹ All of these were carried out according to plan, but the World Bank's study on Indonesia was abruptly suspended when it became known that the ILO expected the Bank to engage in an active and open dialogue with Indonesia's tripartite constituents before finalizing its report.¹² This suspension by the Bank of the country study exercise came just as the Asian financial crisis was about to unfold. In general, the cooperation with the World Bank (and the IMF, which played a very peripheral role in this exercise) went smoothly at the headquarters level but was not fully implemented at the country level. Thus representatives of the Bank and the Fund were not actively involved in the preparation of the country studies and showed little interest in the seminars.

It was through the follow-up to the Social Summit that the basis for potential convergence with the Bank on employment promotion policies was opened up. At the UN, the ILO was delegated responsibility for the follow-up activities to the Social Summit relating to employment.

UNDP held the view that sustainable development did not necessarily entail promotion of formal employment opportunities, whereas both the Bank and the ILO were of the view that it was only by boosting formal employment that other more informal employment opportunities could be improved.

11 The Governing Body's Employment and Social Policy Committee criticised the ILO for allowing other agencies to take the lead on some of these employment reviews, but the fact was that both UNDP and the World Bank had legitimate interests in managing country studies on the subject, and UNESCO was especially interested in the employment ramifications of education policies. In addition, there was some resistance from the ILO Secretariat to assuming the expense of coordinating all six review exercises.

12 This demand was triggered by actions being taken by the ILO's Committee on the Freedom of Association on complaints about the repression of trade union activity in Indonesia. A country-level seminar on consultations with the tripartite constituents was understood to be part of the inter-agency task force's programme, but because of the political turmoil in Indonesia the World Bank decided to suspend the exercise.

5. The Impact of the Asian Financial Crisis on the Policy Dialogue

In the summer of 1997, Thailand found itself faced with serious financial difficulties, and the IMF negotiated a substantial loan to try to stem the huge outflow of capital from that country. This stimulated debate at the 1997 annual meetings of the Bank and the Fund, which were held in Hong Kong shortly after that territory had been transferred to Chinese control.¹³ The meetings were held under tight security and restricted access for protesters, but the general atmosphere at the meetings was one of complacency that the Thai crisis would quickly take care of itself, in view of the soaring interest rates and the huge budget cuts that the Fund was advising the government to implement.

Instead, the crisis spread, first to South Korea and then to Indonesia. Substantial interventions were undertaken in early 1998 by both the Fund and the Bank to stabilize these situations. The ILO also reorganized some of its resources to help these countries, adjusted its Asian regional meeting towards the end of 1998 with a view to debating and adopting a plan of action, and convened a special symposium in Geneva on “The Social Impact of the Asian Financial Crisis” on the occasion of the March 1999 session of the ILO Governing Body. An important element of the ILO message was that employment needed to be a prominent concern.

The sea change that occurred in response to the East Asian financial crisis entailed a growing recognition that social issues were integral to economic development and financial stability.

The sea change that occurred in response to the East Asian financial crisis entailed a growing recognition that social issues were integral to economic development and financial stability. It resulted in a significantly more focused effort by both the Bank and the Fund to integrate social concerns in their dealings with developing countries. The participatory approach has been integrated in the Comprehensive Development Framework (the CDF process), an initiative that was launched in early 1998. This was quickly adapted to the concerted focus on the most highly indebted among the developing countries, the “HIPC” initiative,¹⁴ as was the focus on the poorest of developing countries in the Poverty Reduction Strategy Paper (PRSP) approach that was adopted by the Bank and the Fund in 1999.

The issue of employment and active labour market policies continues to be the source of persistent differences between the ILO and the Bretton Woods institutions.

Both the Bank and the Fund have now integrated in their structural adjustment programmes strategies geared to both a more gradual approach to public/private shifts and a more participatory approach. But the issue of employment and active labour market policies continues to be the source of persistent differences between the ILO and the Bretton Woods institutions. Recent ILO reports on the PRSP process and the broader CDF process express frustration with the low priority given to employment promotion in their comprehensive strategies as well as with regard to different levels of concern about the impact of their macroeconomic policy advice on formal employment opportunities. Even in the five “pilot” countries in which the ILO is closely involved in supporting the PRSP process (Cambodia, Honduras, Mali, Nepal, and Tanzania), the ILO reports that the need for social dialogue is not always recognized and that there has been inadequate analysis of labour market and employment issues.¹⁴

¹³ One of the memorable public exchanges of views occurred in the seminars organised in connection with the annual meetings, with the President of Malaysia, M. Mahathir, at one evening event condemning the currency manipulation of specific individuals for causing the crisis and George Soros defending his actions and condemning the inflammatory rhetoric of Mahathir on the next evening.

¹⁴ ILO Report on the PRSPs for Working Party on the Social Dimensions of Globalization, November 2002, GB 283.

As far as the World Bank is concerned, the criticism is that employment is not given high enough priority, whereas the criticism directed at the IMF is that the entire thrust of its macroeconomic policies for developing countries in financial difficulty runs counter to the expansionary policies that are needed for economic growth and job creation. In their defence, the Bank and the Fund in particular argue that financial stability and responsible fiscal policies are the precondition for economic growth and that the interdependence of the global economy makes it impossible for individual countries to pursue expansionary domestic policies in these situations. However, as Director-General Juan Somavia said in a speech at the Center for Strategic and International Studies in May of 2003, “I believe employment is the fault line of globalization,” further noting that globalization “is not generating jobs that people need where they need it.”¹⁵

6. Employment and the WTO

Although the WTO has not engaged in a policy dialogue with the ILO on employment, this is certainly an issue that has been of concern to policy-makers at the WTO. The issue is regularly addressed in the dialogue between the WTO and UNCTAD, for example, and it must also come up regularly in the analyses of the impact of globalization on poverty eradication and development carried out by the World Bank and the IMF. And the WTO’s first ever World Trade Report contains extensive discussions about the impact of trade on job losses, wage inequalities, and poverty eradication.¹⁶

Having been launched by the Uruguay Round of trade negotiations as a successor to the General Agreement on Tariffs and Trade (GATT), and officially established only in 1995, the WTO is a relatively new institution. It is significantly different from the other international financial institutions in that it relies on the strong GATT tradition of decision-making by consensus.¹⁷ In spite of this, it is an institution that is perceived as dominated by the policy interests of the industrial world, and, more specifically, it is seen to be an advocate of trade liberalization. It is thus perceived as associated with the viewpoint that freer trade contributes to more development and less free trade detracts from development. Under Director-General Mike Moore, the new round of trade negotiations, which the world’s trade ministers approved in Doha in 2001 and which the Director-General himself actively promoted, came to be called the Doha Development Agenda, on the grounds that trade liberalization was seen here as the key to development.

As the power relations in the WTO between industrial and developing countries have shifted, the WTO Secretariat and its Director-General have had to take more account of the interests of developing countries. This has been especially significant for the ILO in terms of the stance taken by many developing countries on international labour standards, but it would appear that this power shift could also serve to increase the WTO’s readiness to search for solutions to what Director-General Somavia has called the “fault line” of globalization. This would appear to

As the power relations in the WTO between industrial and developing countries have shifted, the WTO Secretariat and its Director-General have had to take more account of the interests of developing countries.

¹⁵ Remarks by Juan Somavia to the Center for Strategic and International Studies in Washington, DC, 5 May 2003, available at: www.ilo.org/public/english/bureau/dgo/speeches/somavia/2003/csis.pdf

¹⁶ World Trade Organization, World Trade Report (Geneva: 2003).

¹⁷ The WTO’s dispute settlement machinery is another matter and does provide for majority votes, a procedure that gives the WTO its teeth.

be a good issue for dialogue between the WTO and ILO, even in view of expectations that the WTO will continue primarily to be an advocate of trade liberalization.

Perhaps employment promotion is an issue on which there will always be a divergence of opinion between the ILO and the international financial institutions. Nonetheless, the ILO, too, has had to recognize that the global economy requires solutions different from those needed when countries were more closed and that, for the time being, such different solutions are still in the process of development. It may well be that it is useful to have the kind of reminder about employment and job creation that the ILO is in a position to deliver, without assuming that such a commitment will be embraced by the international financial institutions on their own initiative.¹⁸

The employment debate is a different kind of dialogue than the dialogue between the ILO and the IFIs on core labour standards.

The employment debate is a different kind of dialogue than the dialogue between the ILO and the IFIs on core labour standards. Although the employment policy debate will continue to be advanced by interested parties for the foreseeable future, it no longer encompasses any significant divergences of a policy or ideological nature. On the other hand, the debate on core labour standards is a debate that has significant ideological ramifications, as we shall see in the following section.

¹⁸ It should be noted again here that the critique of the Fund by Joseph Stiglitz, mentioned above in Footnote 10 relates to his belief that the Fund should be more concerned about promoting growth and job creation than in protecting the financial interests of speculators.

4. The Issue of Core Labour Standards

In general, the problem for the ILO with regard to international labour standards, has been policy advice from the Bretton Woods institutions that is in direct conflict with these standards, whereas the problem with the WTO has been a conflict over whether there should be any linkages at all between the two. In this section, the paper will start out by reviewing the ILO's policy debate with the World Bank and the Fund and then look at the absence of any direct debate on labour standards between the ILO and the WTO.

At the Bank and the Fund, there seems to be a deep-seated suspicion towards many officials of formal trade unions and a tendency to see them as "rent-seekers" whose only interests are to protect the privileged position and incomes of their members. From a development policy perspective, furthermore, one often finds that people working within the international financial institutions tend to see trade unions as barriers to development. Thus these conflicts over policy have been especially provocative with regard to the standards on freedom of association and collective bargaining, but there have been divergent views from time to time on some of the other core standards as well.

This problem with the Bank and the Fund has become less pervasive in recent years, in part because of the dramatic changes that have occurred in the Bank and the Fund with regard to social development issues generally, but also because of personnel changes both within the staff and in the decision-making bodies of the Bank and the Fund. Thus a study on the impact of labour standards on economic development that had been completed several years ago was finally updated and published in February 2003, under the sponsorship of Managing Director Mamphele Ramphela.¹⁹ The study has been characterized as concluding that the standards relating to freedom of association and collective bargaining can have a positive effect on development.

1. At the Fund

The difference in policy has been much more pronounced with the World Bank than it has been with the Fund. Surprisingly, the Fund established, early on in the policy dialogue, an approach aimed at distinct institutional integrity, which meant in effect that the ILO had its domain (including core labour standards) and the Fund had its domain (financial and macroeconomic policy). The Fund expected the ILO to defer to its expertise on financial and macroeconomic policy, and the Fund's staff was prepared, at least officially, to defer to the ILO on its expertise on labour standards.

The difference in policy has been much more pronounced with the World Bank than it has been with the Fund.

¹⁹ Aidt, T. and Zafiris Tzannatos. *Unions and Collective Bargaining: Economic Effects in a Global Environment*. Washington: World Bank, 2002.

The Copenhagen Declaration called upon all members to “freely promote respect for relevant ILO Conventions, including those on the prohibition of forced and child labour, freedom of association, the right to organize and bargain collectively and the principles of non-discrimination”.

This is the way that the cooperation between the ILO and the IMF was laid out following the visit of Director-General Michel Hansenne to the IMF Interim Committee in September 1995. As was noted above, the Social Summit had met in March of that same year to endorse a Declaration and a Programme of Action on poverty eradication, social inclusion, and employment. The Copenhagen Declaration called upon all members to “freely promote respect for relevant ILO Conventions, including those on the prohibition of forced and child labour, freedom of association, the right to organize and bargain collectively and the principles of non-discrimination.”²⁰ The Programme of Action went even further in calling on the governments of the world to “strongly consider ratification and full implementation of ILO Conventions in these areas as well as those relating to the employment rights of minors, women, youth, the disabled and indigenous people.”²¹

The IMF’s Interim Committee Communiqué described how the two institutions should cooperate in the follow-up to the Social Summit. It stated:

“[...] cooperation should be strengthened, with a view to helping Fund missions to acquire a better understanding on labor markets and social protection issues, and ILO staff to further integrate in their own policy advice the view of the Fund on macroeconomic policies and targets for the country concerned. The Committee also recommended that regular exchanges of views and sharing of information should be pursued in the preparation of the Fund’s World Economic Outlook and the ILO’s World Employment Outlook.”²²

This actually set the stage for the relatively smooth acceptance by the IMF of the ILO core labour standards. Even as there continued to be friction between the Fund and the ILO on general macroeconomic policy advice as well as over philosophical differences regarding labour market regulations, there was no resistance from the Fund with regard to supporting the ILO on the core labour standards identified at the Social Summit. The ILO was also invited to conduct a seminar for the Fund’s senior managers to explain the scope of the core standards and the ILO’s approach to implementing them, in order to enhance the Fund staff’s ability to incorporate them in their own policy advice.

As it turned out, the ILO came to play an important role in the IMF interventions in the Asian financial crisis.

As it turned out, the ILO came to play an important role in the IMF interventions in the Asian financial crisis, largely at the instigation of Mr. Camdessus. In South Korea, for example, he insisted that the internal changes in labour market policies that the government was trying to implement be negotiated with the major trade unions. A special tripartite consultative framework was instituted for this purpose. In Indonesia, Mr. Camdessus included the stipulation that the government ratify all of the ILO’s core labour standards and adopt specific legislation to allow unions to be organized freely. This led to very extensive ILO involvement in the reform of labour unions and labour relations in Indonesia.

20 Commitments enunciated in the Copenhagen Declaration on Social Development, available at: www.visionoffice.com/socdev/wssdco-4.htm#Commitment%203

21 See Chapter 3 of the Programme of Action of the World Summit for Social Development, available at: www.visionoffice.com/socdev/wssdpa-3.htm

22 Op. cit., Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund”, available at: www.imf.org/external/np/sec/pr/1995/pr9551.htm

Further action was mobilized in connection with the ILO's Asian regional meeting in December 1998 and, most importantly, at the symposium on "The Social Impact of the Asian Financial Crisis" in March 1999. By then, an insightful and influential ILO study on the Asian financial crisis by Eddy Lee had appeared.²³ The author emphasized the importance of participatory processes in preventing and/or ameliorating the impacts of financial crises as well as the importance of social safety nets, including unemployment compensation systems. These were the themes of the symposium, which included high-level participation from the Bank and the Fund.²⁴

At the symposium the suggestion was made that compatibility among the institutions would be enhanced if there were a stronger partnering role for the ILO in the deliberations of the Bank and the Fund. Specifically, the proposal was put forward that the ILO should be recognized as an official observer at both the level of the IMF Interim Committee and the joint IMF/World Bank Development Committee.²⁵ As a result of the discussion of this proposal at this symposium, the ILO was invited as an official observer to the Interim Committee as of April 1999 and to the Development Committee as of September 1999.

In the Interim Committee Michel Camdessus affirmed that "[a] vital complement to the reform of the financial system will be the strengthening of social policies," and went on to say that "[t]he Fund has been deeply involved with other institutions in establishing social safety nets in recent programs in Asia."²⁶ The issue of core labour standards was not entirely resolved by this embrace of social policies, but the commitment was there to work on it. As Stanley Fischer stated a few months later at the IMF Symposium on Labour Standards during the September 1999 meetings of the Bank and the Fund, "The challenge is to find a solution to this problem *within the framework of respect for fundamental rights*."²⁷

This commitment to respect fundamental rights is an important element of the IMF's relationship with the ILO. The Fund has regularly stated that it has no problem with any of the ILO's core labour standards, even though the World Bank has expressed its reservations. Furthermore, this support for core labour standards has been upheld under the leadership of Horst Köhler, who became Managing Director of the IMF in May 2000. It was in October 2000, for example, that the IMF announced that Fund missions concerned with the organization's main country-level evaluations, the so-called "Article IV reports," would systematically include consultations with trade unions. More recently, Horst Köhler was reportedly well received when he met with the Global Commission on the Social Dimension of Globalization in October 2002. In his speeches, Köhler regularly highlights his concerns about social equity and individual responsibility to society, along with the need for open markets and freedom.²⁸

This commitment to respect fundamental rights is an important element of the IMF's relationship with the ILO. The Fund has regularly stated that it has no problem with any of the ILO's core labour standards, even though the World Bank has expressed reservations.

23 Lee, Eddy. *The Asian financial crisis: the challenge for social policy*. Geneva: ILO, 1998.

24 Stanley Fischer, the Deputy Managing Director, represented the IMF, while Mark Malloch-Brown, the External Relations Vice President, represented the World Bank.

25 The proposal for official Observer status on the Interim and Development Committees was included in a speech at the symposium by this author. Stanley Fischer, the Deputy Managing Director of the Fund, picked up on this proposal in his own remarks and endorsed the idea.

26 "Report of the Managing Director to the Interim Committee on Progress in Strengthening the Architecture of the International Financial System," Washington, DC, 26 April 1999 at www.imf.org/external/np/omd/1999/042699.htm

27 Stanley Fischer at the IMF Symposium on Labour Standards, September 1999, Washington, DC.

28 Managing Director Köhler's speeches are well documented on the Fund's Website, www.imf.org.

Critics of the IMF's policies on financial stabilization and structural adjustment continue to insist that these commitments are only "window dressing" and that the IMF is deliberately engaging in promoting policies that run counter both to labour market regulations and strong labour unions. It is the present author's opinion that the IMF's policies are not contrary to a framework of respect for fundamental rights and that the IMF's views on labour market rigidities should be seen as separate from this underlying respect for fundamental rights. At the World Bank, on the other hand, the situation has been quite different.

2. At the World Bank

The lively debate between the ILO and the World Bank over core labour standards was launched with the decision by the World Bank to devote its World Development Report for 1995 to the topic of labour.

The lively debate between the ILO and the World Bank over core labour standards was launched with the decision by the World Bank to devote its World Development Report for 1995 to the topic of labour. The ILO was approached to collaborate on this report with the Bank, and the Director-General declined the invitation. It was (reportedly) his view that the Bank had no business conducting a report on labour and that any cooperation from the ILO would merely result in a transmogrification of the ILO's position to suit the policy inclinations of the neo-liberal, anti-labour orthodoxy prevalent at the Bank in the early 1990s.

The team set up by the World Bank to work on the report was headed by an individual, Michael Walton, who was far more open-minded about the role of labour than the neo-liberal orthodoxy shared by most economists at the Bank. Even though the ILO did not partner with the World Bank on the report, ILO staff did review early drafts of it, providing extensive critical comments. The report, when it came out in mid-1995, did show a significant movement from outright condemnation of organized labour to a guarded endorsement of the effectiveness of collective bargaining – but only if it was conducted at the enterprise level. Sectoral or national collective bargaining was seen as detrimental to development, and labour unions were seen as either good or bad, depending on how restrained they were in their demands.²⁹

The ILO published its first World Employment Report in 1995, and it served as the basis for some public forums aimed at airing the different positions taken in the two reports. Similarly, the World Bank agreed to a tripartite seminar to discuss "next steps."³⁰ Another follow-up to the Social Summit, also held in early 1995, showed a readiness on the part of the World Bank to conduct joint research with

²⁹ What is interesting to note is that the book, which was published in February of 2003, included a different interpretation on the role of trade unions and of national and sectoral bargaining which seemed to show a positive effect for this level of bargaining, based on research from the 1980s and early 1990s. And it is primarily the research conducted since the mid-1990s that shows a less strong correlation. When asked why this research was not integrated in a more accurate interpretation of collective bargaining in the 1995 WDR, the reply was that the Bank was not ready "politically" to endorse anything but enterprise-level bargaining.

³⁰ This bipartite seminar was jointly organised by the Bank and the ILO but was hosted by the Bank at its headquarters in Washington, DC, in May 1996. The Bank had no trouble deferring to the ILO in selecting the worker representatives to this seminar (on which the ILO deferred to the ICFTU and the WCL, as is the tradition), but the Bank was not prepared to accept the ILO's selecting of the employer representatives (on which the ILO would have deferred to the International Organization of Employers, as is the tradition). The Bank's view was that employer organisations were not representative of the business point of view because most businesses were not members of these employer organisations. The compromise was that half the "employer" invitees were drawn from the ILO (IOE) list and half were business people invited directly by the Bank. This reflects a continuing difference in the Bank's dealings with these two groups. The ICFTU and WCL are now involved in a formal dialogue of their own with the Bank (and the Fund), whereas the IOE is not.

the ILO on gender, vocational training, and child labour, but not on freedom of association or the right to collective bargaining.

On gender there seemed to be no major disagreement, other than an initial hesitancy on the part of the Bank to address the issue at all, for fear that it would be interpreted as a political issue. The Bank's Articles of Agreement, which prohibit the Bank from interfering in the political affairs of its members and limit its role to economic considerations, have been regularly cited as the reason why the Bank is unable to take a position on social issues; the fear is that the latter might be regarded as political issues.³¹ This reluctance on the gender question was overcome fairly quickly, as it was, eventually, on the question of child labour question as well. This is now an almost moot question, since social development has since been recognized at the World Bank as being just as important as economic development.

The evolution in the Bank's views was interesting to see. After the Social Summit, the new President of the World Bank, James Wolfensohn, came in with a development agenda significantly different from that of his predecessor. This was in the summer of 1995, and Mr. Wolfensohn paid an unofficial visit to the ILO in May of 1996, meeting with its staff. He then accepted an invitation to speak at the ILO Conference in June 1997. On both these occasions, he expressed his personal approval of the core standards but pointed to the political restrictions on Bank action. As he said at the ILO in 1997, "[i]n our work in the Bank we extend to many areas in which you here, in the ILO, are involved, but we work somewhat differently. We start from an economic and development point of view, that is our mandate. When it comes to something like labour standards we cannot make decisions as an institution of the Bank without the approval and support of our governments."³²

In the months that followed, the focus of policy dialogue was on establishing coherence primarily on child labour. The Bank's staff started out on the assumption that ILO standards were fairly rigid, and seemed to be calling on the ILO to develop a more flexible approach toward Bank policy on the issue. However, this impression, which proved misleading, was gradually corrected as these officials absorbed a more precise interpretation of the existing ILO standards. The process was further aided by the ILO's decision to adopt a new convention on the more extreme or hazardous forms of child labour, which was done in Conference deliberations in 1998 and 1999.

Throughout this period there continued to be resistance from the Bank on the issue of collective bargaining. Even as the ILO adopted its Declaration of Fundamental Principles and Rights at Work in 1998, which made it possible for international organizations to embrace the basic principles without having to "buy in" to the treaty obligations of the conventions themselves, the Bank staff continued

On gender there seemed to be no major disagreement, other than an initial hesitancy on the part of the Bank to address the issue at all, for fear that it would be interpreted as a political issue.

The Bank's staff started out on the assumption that ILO standards were fairly rigid, and seemed to be calling on the ILO to develop a more flexible approach toward Bank policy on the issue.

³¹ Section 10 or Article 4 of the IBRD Articles of Agreement states, "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I." See: <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20049603~pagePK:43912~menuPK:58863~piPK:36602,00.html>

³² International Labour Conference Provisional Record, Thursday, 12 June 1997, Eighty-fifth Session, Geneva 1997.

to resist. And even when President Wolfensohn, partially in response to the emerging Asian financial crisis, announced a broadened participatory approach to comprehensive development strategies in early 1998, the Bank resisted. Then, in the spring of 1998, there was a sudden shift in the Bank's position, at least as regards dialogue with the ILO on this issue, and a call came in to offer a formal policy dialogue between Mr. Wolfensohn and Mr. Hansenne in the fall of 1998.

The policy dialogue was held on 30 October 1998 in Washington, DC. The focus of the dialogue was the ILO Declaration and how the Bank might support it (or not support it, as the case might be). At the last minute, the Director-General cancelled his appearance, and the dialogue proceeded without him. Nonetheless, there appeared to be a consensus that the Bank should look for ways to at least avoid contradictory positions on core labour standards and to support the Declaration as a statement of principles. A variety of cooperative research initiatives were identified to reinforce this agreement to search for better coherence. That same day, the Deputy Director-General, Kari Tapiola, delivered an address on behalf of Director-General Hansenne, which was jointly sponsored by the Bank and the Fund and at which Mr. Camdessus reiterated the IMF's wholehearted support for the Declaration and the core labour standards.

Subsequently, the World Bank staff would write up a news article about the policy dialogue which highlighted the continued presence of differences. This caused considerable consternation among the Worker delegates of the ILO Governing Body and required intervention by the ILO to have the article retracted. This difference of interpretation, however, continued to be a factor in the continuing debate over collective bargaining that took place at the staff level in the years that followed.

Throughout the 1990s, it was primarily and usually only the US Executive Director who called upon the Bank to endorse all of the ILO core standards.

It was only when there was a change in the membership of the Executive Board that this barrier to convergence on the most basic of the core labour standards was challenged. Throughout the 1990s, it was primarily and usually only the US Executive Director who called upon the Bank to endorse all of the ILO core standards. For the US Executive Director, this was a legally binding requirement, since Congress had enacted legislation in 1994 requiring the EDs to vote against projects in countries where violations of international labour standards were an issue. The US Treasury Department was also called upon to provide an annual report to Congress on what the US was doing to promote international labour standards in the international financial institutions.

Occasionally, the UK's Executive Director also signalled some interest in the issue, but the others remained unreceptive. Even the US EDs stated that it was a bit awkward to push the matter when the EDs from the developing countries were so adamantly opposed to any labour-related conditionality in Bank policies and programmes. Nonetheless, the US Congress did prevail on a stipulation requiring an assessment of core labour standards involving the replenishment of funding for the International Development Agency (IDA), the "soft-money" arm of the World Bank Group.³³ In fact, in the 12th replenishment for IDA it was made mandatory

³³ As reported by the ILO in its November 2000 report to the Employment and Social Policy Committee of the GB, available at: www.ilo.org/public/english/standards/reim/gb/docs/gb279/pdf/esp-1.pdf

that the Bank prepare a core labour standards toolkit, which is now on the World Bank website.

The change in the Executive Board seems to have come about following the appearance on the scene of the “Utstein Group” of development ministers, who consolidated their support for debt relief in 1999 to bring about the “Highly Indebted Poor Countries (HIPC) initiative. This group of four development ministers, Clare Short from the UK, Heidmarie Wieczorek-Zeul from Germany, Eveline Herfkens from the Netherlands, and Hilde K. Johnson from Norway, joined together on three principles – debt relief, the fight against poverty, and financing for development. This group of four development ministers, who happened, at the time, all to be women, has continued to coordinate its development strategies with the Bank. In all likelihood, this group discussed the matter of Bank relations with the ILO as part of its strategic planning. In fact, the German minister hosted a special meeting for the new Director-General with the G7 development ministers plus the ministers from Finland, the Netherlands, Norway, and Russia when he made his first official visit to the annual meetings of the Bank and the Fund in September 1999.³⁴

The offshoot of this first contact was a return visit of the Director-General to the World Bank and the Fund in March 2000 and an agreement to focus the dialogue on social security and social protection issues, not core labour standards. It might be speculated that the time was not ripe for a direct approach on this, especially since the “Copenhagen plus Five” Summit was about to be convened in Geneva.³⁵ Then came the US presidential elections in the fall of 2000 and the 9/11 disaster in 2001.

In any case, it is apparent that it was the German Executive Director who ultimately requested the Bank to do a thorough study of core labour standards and to report to the Board, which had its first debate on the issue in May 2003. By this time, the Doha Development Agenda was attracting widespread attention, China had been accepted for membership in the WTO, and the Monterrey and Johannesburg Summits had taken place. The time had become ripe for the Board to take up the question, and reports of the meeting indicate that the debate was very constructive. According to Minister Wieczorek-Zeul, the debate was not marked by divisions between developed and developing country representatives, as many officials at the Bank had feared over the years. Instead, recognition was given to the merits of being identified with a positive record on core labour standards for attracting trade and investment to developing countries.³⁶

34 See the November 1999 report to the Employment and Social Policy Committee of the Governing Body, available at: www.ilo.org/public/english/standards/reln/gb/docs/gb276/esp-5.htm. One other factor contributing to the momentum to address core labour standards was the visit of President Clinton to the ILO Conference and the G8 Summit in Cologne in June 1999. This Summit specifically endorsed the ILO Declaration of Fundamental Principles and Rights at Work and encouraged closer cooperation between the ILO and the Bretton Woods institutions. See the Cologne Summit Communiqué and Clinton’s speech to the ILC, available at, respectively, www.mofa.go.jp/policy/economy/summit/1999/communique.html and www.ilo.org/public/english/standards/reln/ilc/ilc87/a-clinto.htm

35 The developing countries were very focused on limiting the references to core labour standards at this summit – and even objected to language proposed by the European Union on “the development of sound principles of social policy and information-sharing on internationally developed standards and good practice in social policy.” The compromise on this was to support “guidelines to monitor progress toward social development” – but only by the UN, and not by the other international organizations. See the Friends of the Earth summary of the Geneva 2000 Summit.

36 Comments of Ms. Heidmarie Wieczorek-Zeul, Minister for Development Cooperation of Germany, 22 July 2003, Geneva, Switzerland. Text available at: www.bmz.de/en/media/speech/rede22072003.html

It appears that the ICFTU, on its own initiative, has been far more active than the ILO in engaging the Bank and the Fund on international labour standards.

In a statement for the Spring 2003 Meetings of the Bank and the Fund, the ICFTU welcomed the renewed commitments of support for core labour rights and the new World Bank study on union rights and development that had been published in February.³⁷ The ILO's statement to the Development Committee, however, made no reference to core labour standards except in the context of their relevance to an understanding of good governance.³⁸ It appears that the ICFTU, on its own initiative, has been far more active than the ILO in engaging the Bank and the Fund on international labour standards. This may well be a strategic decision based on the divisions within the ILO constituencies on conditionality and core labour standards, whereas the ICFTU and its sectoral affiliates have successfully mobilized an ongoing dialogue of their own with the Bank and the Fund.

The Bank may be expected to move towards consistency with the ILO's core labour standards. The Executive Board has requested a detailed work programme on further steps, and there appears to be a consensus on the desirability of developing more consistency with the ILO on these standards. Some Board members would also like a more proactive role, such as incorporation of core labour standards in the operational policy of the Bank, including its procurement guidelines, and screening of all projects to ensure compliance, as the US has already been required to do by its own Congressional oversight bodies. But there is resistance to these steps, including from the Bank's staff.³⁹

At the same time, there is frustration with the way in which the Bank operates in the field, and complaints continue to turn up about this in ICFTU publications, but also in ILO assessments of its relations with the Bank.⁴⁰ Not only is there a tendency to recommend policy actions that would cut back on trade union rights and labour market regulations from country to country, but there is also a sense that the consultative processes in the Bank's new approach are not fully open to the ILO or its constituents. It is interesting to note that the Bank itself has, in its most recent annual report, identified a need to improve its "participatory approaches," but the talk is only of the need for better outreach to the poor, sectoral ministries, the private sector, and parliaments.⁴¹ In contrast, the IMF annual report cites the need for more systematic participation of stakeholders and notes that there is "greater scope for including parliaments, the business community, trade unions and other workers' groups and groups representing the poor."⁴² The challenge with the Bank is an ongoing challenge for the ILO.

37 ICFTU statement for the April 2003 meetings. "Global Stimulus Plan: The Role of the International Financial Institutions to Avoid World Recession and Promote Social Development, April 2003, www.icftu.org/displaydocument.asp?Index=991217355&Language=EN

38 Statement of Juan Somavia to the IMFC and the Development Committee, April 2003. See: [http://wbln0018.worldbank.org/dcs/devcom.nsf/\(statementsattachmentweb\)/April2003EnglishDCS20030013/\\$FILE/DCS2003-0013-ILO.pdf](http://wbln0018.worldbank.org/dcs/devcom.nsf/(statementsattachmentweb)/April2003EnglishDCS20030013/$FILE/DCS2003-0013-ILO.pdf)

39 The campaign to incorporate core labour standards in the World Bank's procurement guidelines has been spearheaded by the International Federation of Building and Wood Workers (IFBWW). See www.ifbww.org. The ILO has supported this effort but has not been active in leading the initiative.

40 Op. cit., ICFTU and Employment and Social Policy Committee of the ILO Governing Body. See: www.icftu.org/displaydocument.asp?Index=991217355&Language=EN and www.ilo.org/public/english/standards/reln/gb/docs/gb276/esp-5.htm

41 Op. cit., World Bank Annual Report, 2002, available at: www.worldbank.org/annualreport/2002/PrintVersion.htm

42 Op. cit., IMF Annual Report, 2002. See: www.imf.org/external/pubs/ft/ar/2002/eng/index.htm

3. Core labour standards and the WTO

A discussion of the role of core labour standards in international financial institutions would be incomplete without some mention of the way in which this issue is affecting the World Trade Organization. It is primarily because of the way in which the issue cropped up in the formation stage of the WTO during the Uruguay Round that it has been an issue everywhere else. This paper will now take a look at how this developed and what it has meant for relations between the ILO and the WTO.

US trade law has long contained a provision requiring compliance with certain basic labour standards. Concern about unfair competitive advantage in trade in manufactured goods as a result of cheap labour or unsafe working conditions has been a driving force for domestic legislation and international standard-setting for decades, if not longer. Domestic action was usually directed to such mechanisms as tariffs to compensate for differentials in labour costs.⁴³

Under the Caribbean Basin Economic Recovery Act of 1983, the GSP Renewal Act of 1984, and Section 301 of the Trade Act of 1974, as amended in 1988, five categories of workers' rights are identified as a basis for unilateral action against any country that fails to enforce the rights set out in these five categories.⁴⁴ These five are (1) freedom of association, (2) the right to collective bargaining (as a separate category), (3) the abolition of forced labour, (4) the effective elimination of child labour, and (5) acceptable conditions of work. These five categories have subsequently been reaffirmed in the Trade and Development Act of 2000.⁴⁵ They have also been integrated in the new approach to workers' rights and trade under the Trade Promotion Authority.⁴⁶

While the mobilization of concern about workers' rights encompassed this same range of issues in other settings over the years, there have been other developments internationally that would distinguish sharply between the significance of the first four of the five categories and the fifth category. In the 1990s, the first four categories, plus anti-discrimination (which was not included in the list of workers' rights under US trade law), came to be considered by the international community as "core" labour standards.

The category of conditions of work was not included in this core list, because it includes provisions that are understood to envision "flexible implementation" by developing countries. Unlike the first four categories, where development level is supposedly not a determining factor, the conditions of work in the fifth category were seen as the very basis of the distinction between developing and developed

Unlike the first four categories, where development level is supposedly not a determining factor, the conditions of work in the fifth category were seen as the very basis of the distinction between developing and developed countries.

43 Steve Charnovitz wrote a thorough history of such initiatives in 1986 when he was on the staff of the Steering and Policy Committee of the US House of Representatives. Steve Charnovitz, "The influence of international labor standards on the world trading regime," available at: www.geocities.com/charnovitz/ILO.htm

44 Copies of the Caribbean Basin Economic Recovery Act of 1983 and summaries of the Generalized System of Preferences Renewal Act of 1984 and Section 301 of the Trade Act of 1974 (as well as its 1988 Amendment) may be found, respectively, at: <http://www.mac.doc.gov/CBI/Legislation/cbileg-83.htm>, <http://thomas.loc.gov/cgi-bin/bdquery/z?d098:HR03398:@@LITOM:/bss/d098query.html> and <http://www.osec.doc.gov/ogc/occic/301.html>

45 The text of the Trade and Development Act of 2000 may be viewed at: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=106_cong_bills&docid=f:h434enr.txt.pdf

46 The text of the Trade Act of 2002 is available at: <http://finance.senate.gov/leg/hr3009confprt.pdf> (See Section 2113 (6) for relevant definition.)

countries. The relatively lower cost of labour was the main perceived advantage for developing countries in the global economy, and the imposition of “developed country” standards on wages, working time, and occupational safety and health were perceived to be directed against the competitive advantage of developing countries.

These work standards conditions were therefore not included in the list of core labour standards adopted at the Copenhagen Summit for Social Development, where the whole issue of distinguishing core labour standards from international labour standards more generally was first addressed. During the debate on core labour standards at the Social Summit, many government representatives from developing countries expressed concern that international labour standards could be used against them for protectionist purposes.⁴⁷ This concern was especially acute with regard to the standards on wages, working time, and occupational safety and health. For this reason, the governments that were seeking to establish a core list of labour standards argued that the core list should only include those standards that all countries would be expected to embrace, regardless of their level of development – and not any of the other standards that were to be implemented more in a more variable manner.⁴⁸

Since the US has been the main advocate of a linkage between core labour standards and the WTO, this broader view of what constitutes core labour standards could place squarely in the WTO setting the very issues that have proven most controversial.

Developing countries may well be suspicious about the differences between US trade law and ILO core standards. Under US trade law, they are subjected to the broader list that includes the contentious issues of wages, working time, and safety and health standards. And since the US has been the main advocate of promoting a linkage between core labour standards and the WTO, this broader view of what constitutes core labour standards could place squarely in the WTO setting the very issues that have proven most controversial.

The European Union has also been active in integrating core labour standards in its GSP as well as in its special relations with the African, Caribbean and Pacific countries that are former colonies. The EU incorporated freedom of association and the right to collective bargaining as well as the elimination of forced and child labour in its GSP framework in 1995, and subsequently added non-discrimination in 2002. In contrast to the US, however, its list of core labour standards sticks to those standards that are associated with the ILO Declaration of Fundamental Principles and Rights at Work – i.e. there is no reference to conditions of work.

The EU has also been more cautious than the US in its policy on labour standards at the WTO. When the issue of linking international labour standards came up during the Uruguay Round and at the Marrakesh Ministerial meeting establishing the World Trade Organization, the US position had been to seek a connection between its own interpretation of basic international labour standards and the WTO.

47 For an overview of the debate that preceded the ILO's adoption of the Declaration on Fundamental Principles and Rights at Work see, respectively: The Report of the Committee on the Declaration of Principles, available at: <http://www.ilo.org/public/english/standards/relm/ilc/ilc86/com-decl.htm>, along with the plenary discussion of this report, at www.ilo.org/public/english/standards/relm/ilc/ilc86/com-decd.htm Both of these documents are from the 86th Session of the International Labor Conference, held in Geneva in 1998.

48 The Social Summit documents include a Declaration and a Programme of Action. In both documents, the core labor standards that all countries were called upon to ratify, regardless of level of development, were the same list as those which were ultimately incorporated in the ILO Declaration of Fundamental Principles and Rights at Work. The texts of the Copenhagen Agreements are available at: www.un.org/esa/socdev/wssd/agreements/index.html

This changed once the Copenhagen Summit had identified a different set of standards, and both the US and the EU urged the WTO, during the Singapore Ministerial meeting in December 1996, to at least conduct a study of the issue.

It was on this occasion that the issue received a considerable amount of attention. The Director-General of the ILO was invited, and then uninvited.⁴⁹ Almost every trade minister at the meeting mentioned the issue, with most of the developing country ministers insisting that it was not a debatable issue. And the outcome was the inclusion in the Singapore Ministerial Declaration of a commitment to the observance of internationally recognized core labour standards, but with the proviso that “[t]he International Labour Organization is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them.” It was firmly stated, furthermore, that the WTO and the ILO should “continue their existing collaboration.”⁵⁰

Initial comments about the absence of the Director-General and the content of this statement indicated that there was a sense that the ILO and labour standards had received a setback. However, this quickly changed. The fact that the ministers had committed themselves to observe these standards actually gave a boost to the special campaign to ratify the core standards in the ILO’s follow-up to the Social Summit.⁵¹ It also contributed to the momentum to create a new Declaration of Fundamental Principles and Rights at Work, which had been proposed by the Employers in the ILO in the fall of 1996, and which was approved for drafting by the Governing Body in March 1997.

The issue was not prominent in the Geneva ministerial meeting for the WTO in May of 1998, but it became a very major issue during the Seattle ministerial meeting from 30 November to 3 December 1999. The outbreak of anti-globalization protests at the Seattle ministerial came as a shock to many, and the issue of core labour standards and the WTO was part of the protesters’ demands. So the disruptions caused by the unruliness of some of the protesters and the size of the protest contributed to the emergence of an impasse, with the issue of labour standards playing a prominent role in that impasse.

The outbreak of anti-globalization protests at the Seattle ministerial came as a shock to many, and the issue of core labour standards and the WTO was part of the protesters’ demands.

In fact, the negotiations at the Summit meetings were actually moving towards a consensus on a few modest steps with regard to this issue. The US had proposed a Working Group on Trade and Labour Standards, whereas the EU had proposed a slightly different Working Party, and the developing countries were starting to be drawn into consultations. However, towards the end of the Summit, President Bill Clinton made a bold statement that he was confident that labour standards

49 These actions were taken by the General Council in Geneva. The invitation was issued in late November; then the invitation was withdrawn because several governments protested that the General Council was not authorized to issue such an invitation.

50 A copy of the text of the Singapore Ministerial Declaration, adopted on 13 December 1996, may be found at: www.wto.org/english/thewto_e/minist_e/min96_e/wtodec_e.htm

51 It was also useful that the OECD came out with a study on the impact of labour standards on trade and concluded that there seemed to be no negative impact for countries with good labour standards as compared to countries with poor labour standards. See OECD. “Trade, Employment and Labour Standards: a Study of Core Workers Rights and International Trade”, Paris: OECD Publications Service, 1996. A 2000 update of that study, “International Trade and Core Labour Standards,” also showed some positive correlations between good labour standards and trade.

would ultimately be integrated into the WTO's framework of sanctions.⁵² What the statement did do was abort a tentative willingness to discuss the labour standards issue. Of course, it was also the case that the labour movement, including the AFL-CIO, was happy to see the overall possibility of an agenda for further trade liberalization effectively blocked by this statement.

Interestingly, at the Doha ministerial in 1999 the setbacks on the labour issue from the Seattle scene basically meant that the maximum possible goal was a re-affirmation of the Singapore Declaration on the core standards and the ILO's role. The failure of Seattle was still very much on everyone's mind, and the developing countries had adopted a more aggressive negotiating position on a variety of issues, including this one. Specifically, the Doha Declaration affirmed a commitment to the Singapore language, and nothing more.⁵³

Referred to as the Doha Development Agenda, the outcome of the meeting was to set the stage for a new round of trade negotiations with a comprehensive emphasis on trade liberalization for the benefit of development. The present paper is not intended to analyse the scope of this development agenda or the many obstacles to the negotiations, such as those involving access to affordable medicines, special and differential treatment, agriculture, services, geographical indications, implementation, and the "Singapore issues" concerning investment, competition, procurement, and transparency. Suffice it to say that the intent of the Doha agreement was to produce a total package for further trade liberalization by 2005. No government is expected or prepared to settle one or two of the contentious issues without some expectation that there will ultimately be a total package, and that has contributed to the difficulties of keeping things on schedule.

In the midst of these difficulties in keeping the Doha Development Agenda on track, the issue of labour standards at the WTO has been downplayed. The issue has not been pushed by the US at all, and the EU has softened its position. In July 2003, for example, the Council and the Commission issued statements in support of a "more effective dialogue between the WTO and the ILO," which would include regular representation at each other's meetings, joint studies, and joint initiatives. The EU also called for a comprehensive campaign on child labour, the examination of core labour standards in EU trade policy by the WTO, and the continued inclusion of core labour standards in its GSP programme, in EU development policy, and in

52 Because the statement was widely disseminated and reflected a very isolated US position on this issue, it was interpreted as the action that killed the summit. On the other hand, there were many issues involved in the WTO negotiations, especially the issue of agriculture, which were seen as the underlying reasons for the failure of the Seattle summit. The controversy came out in an interview with President Clinton one day before his arrival in Seattle. This is what the President said: "I think that what we ought to do first of all [is] to adopt the United States' position on having a working group on labor within the WTO, and then that working group should develop these core labor standards, and then they ought to be a part of every trade agreement, and ultimately I would favor a system in which sanctions would come for violating any provision of a trade agreement. . . ." As reported by Roger Downey, "The President's talk of sanctions shatters chance for WTO unity, The Seattle Weekly, December 9-15, 1999, available at: www.seattleweekly.com/features/9949/features-downey.shtml" and www.seattleweekly.com/features/9949/features-downey.shtml

53 Paragraph 8 of the Doha Ministerial Declaration, in particular, reads: "We reaffirm our declaration made at the Singapore Ministerial Conference regarding internationally recognized core labour standards. We take note of work under way in the International Labour Organization (ILO) on the social dimension of globalization." A copy of the text of the Doha Declaration may be found at : www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm

its Country Strategy Papers.⁵⁴ The EU is emphasizing that it sees an incentives-based approach, not a sanctions-based approach, to core labour standards as the way to go.

On issues of this kind, the ILO has no direct role to play.⁵⁵ The ICFTU, however, as the primary international labour federation pushing for workers' rights, has issued several statements in connection with the Cancun Ministerial meeting that reflect a significant change in its own strategy.⁵⁶ While the ICFTU still takes a strong position in favour of WTO involvement in workers' rights issues and working with the ILO, the emphasis is now on the whole range of developing country concerns on agriculture, intellectual property rights, services, and other topics under negotiation.⁵⁷ This obvious appeal to developing countries would suggest that the ICFTU is campaigning at the WTO for a common position with the developing countries on the broader concept of the social impact of globalization.

There is reason to assume that the ICFTU has opted to rely on the EU as the key entity for promoting an incentives-based approach to the ILO/WTO relationship, and on the ILO's Global Commission on the Social Dimension of Globalization to produce a menu of options for enhanced cooperation between the ILO and the WTO. Strategically, it appears that the labour movement is concentrating on building an alliance with the developing countries in hopes of overcoming the resistance at the WTO to any role at all for labour issues.

Strategically, it appears that the labour movement is concentrating on building an alliance with the developing countries in hopes of overcoming the resistance at the WTO to any role at all for labour issues.

54 "Common Guidelines on Promoting Core Labour Standards: Draft Council Conclusions following the Commission's Communication on Core Labour Standards," available at: http://trade-info.cec.eu.int/doclib/docs/2003/july/tradoc_113357.pdf.

55 The ILO's Director General did attend the Seattle meeting but did not attend the Doha or Cancun meetings. The ILO did send staff to these meetings.

56 The ICFTU is the main international trade union federation, but it is also one of a large number of "Global Union Federations" (GUFs) that include sector-specific federations and the Trade Union Advisory Committee (TUAC) of the OECD. In addition, a second general federation at the international level, the World Confederation of Labour (WCL), is active in the global policy dialogue with international financial institutions, sometimes on its own and sometimes in cooperation with the ICFTU and its related GUFs. Finally, the European Trade Union Congress (ETUC) appears as a co-sponsor of global trade union policy statements on trade-related issues from time to time. The IOE, as the global institution representing national employers' federations and serving as the liaison for employers with the ILO, limits its own position statements to opposing a "social clause" in the WTO. See, for example, IOE Statement on Trade and Labour Standards for the WTO Ministerial Meeting, Seattle, 30 November - 2 December 1999 http://www.ioe-emp.org/ioe_emp/pdf/ioe_seattle_statement.pdf

57 See "ICFTU says the needs of developing countries must be respected at the WTO," 28 July 2003, Brussels at: <http://www.icftu.org/displaydocument.asp?Index=991218329&Language=EN>
C:\Documents and Settings\Katherine A. Hagen\My Documents\Friedrich Ebert\if\ICFTU\5th Ministerial Conference Of The World Trade Organisation (WTO) (ICFTU Website).htm

5. Social Protection

There continues to be strong disagreement between the ILO and the IFIs over the privatisation of pension funding.

In addition to employment and core labour standards, the ILO dialogue with the international financial institutions has included a considerable component on social protection. Social security, pensions, unemployment insurance, and other safety net programmes are integral parts of the ILO's Decent Work Agenda. The ILO played an important role in stimulating the Bank and the Fund to address these issues in the context of the Asian financial crisis, and the Bank and the Fund's policy advice on safety nets has been enriched by the ILO's contributions. On the other hand, there continues to be strong disagreement between the ILO and the IFIs over the privatisation of pension funding. For the ICFTU and other labour organizations, this spills over into a broader disagreement about privatisation in general.

During the Asian financial crisis, the ILO published a study on what could be done to minimize the detrimental effects of abrupt financial downturns on workers and their families.⁵⁸ The author, Eddy Lee, outlined a model for instituting unemployment compensation schemes in developing countries that could be funded modestly even in times of crisis but would still operate as an important means of keeping workers in the formal economy. While the Bank initially resisted this idea as unworkable, it is now doing quite a bit of work assisting countries to establish such unemployment compensation schemes. In a sense, the Bank has taken over this service, given the relatively more abundant resources it has to work with governments in this field, and the ILO is, at present, providing very little direct technical assistance in this area.

The ILO, nonetheless, has launched a Global Campaign on Social Security and Coverage for All, as requested by the ILO Conference in 2001. In connection with this, the Governing Body in November 2002 approved a pilot project to test the concept of a Global Social Trust, based on voluntary contributions from workers, mostly in developed countries, for minimum social protection programmes in developing countries.⁵⁹

The ILO criticized the pension-fund privatisation schemes for removing the public obligation of a guarantee while depending on savings growth bound up with overall economic growth in much the same way that public revenues also have depended on that same overall growth.

On the pension funding issue, the Bank produced a report in 1995, authored by Estelle James, on the merits of private funding of pensions as illustrated by the privatisation of the pension programme in Chile in the early 1990s.⁶⁰ This report was not well received by the social protection experts in the ILO. The ILO position is premised on the normative obligation to ensure fair and equitable income flows for all workers. Privately funded retirement savings are generally structured in such a way as to allow competitive, market-based funds to increase the returns on individual savings, whereas publicly funded systems are oriented to guaranteeing

⁵⁸ Op. cit, E. Lee.

⁵⁹ <http://www.ilo.org/public/english/standards/reim/gb/docs/gb285/pdf/gb-13.pdf>

⁶⁰ James, Estelle. *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, a joint publication of the World Bank and Oxford University Press, 1994.

a certain income flow, based on a pay-as-you go system of public financing. The ILO criticized the privatisation schemes for removing the public obligation of a guarantee while depending on savings growth bound up with overall economic growth in much the same way that public revenues also have depended on that same overall growth.⁶¹

The privatisation-of-pensions issue continues to be a point of contention between the ILO and the IFIs. Regularly, the IMF's World Economic Outlook, a biannual report on the world economy, features criticisms of the public pension systems of both developed and developing countries. And, regularly, the ILO expresses its concerns about equitable and public guarantees.

This is an issue that has been further complicated by the fact that the Bank and the Fund have both taken positions in support of labour market reforms in countries like Germany and France that include reducing the generosity of pension benefits and increasing the age of eligibility for benefits.⁶² The ICFTU has taken a critical position on this latest development. In May 2003, there was a heated exchange between the ICFTU and Bank and Fund on the pension fund/privatisation issue that included these additional issues.⁶³ ILO staff were also involved in this exchange, and the Bank's Director of Social Protection is reported to have criticized both the ICFTU and the ILO. Thus the thrust of Bank research and advice on pension reform continues to elicit strong criticism from the ILO.

61 The ILO response to the Bank's study was first enunciated in R. Beattie and W. McGillivray, "A Risky Strategy: Reflections on the World Bank Report," *International Social Security Review* (Geneva: Vol. 48, 1995), pp. 3-4. See also: Gillion, Colin, John Turner, Clive Bailey & Denis Latulippe, eds., *Social Security Pensions: Development and Reform* (ILO: Geneva, 2000).

62 See recent IMF Article 4 Consultations with Germany and France at: <http://www.imf.org/external/np/ms/2003/071403.htm> and www.imf.org/external/np/ms/2003/063003.htm, along with the World Bank's "Pension Reform in Europe: Process and Progress," 2003, available at: www1.worldbank.org/sp/doc/PensionReformEurope.pdf

63 Baker, Dean and Debayani Kar (ICFTU). "World Bank Involvement in the Privatisation of Public Pension Systems in Developing and Transition Countries; a Background Paper," May 2003, available at: www.icftu.org/und/www/pdf/pensionreform.pdf

6. Privatisation

Although the advocates of liberalization in the WTO context argue that liberalization does not mean privatisation, the unions have argued that the aim of liberalization in services is only to allow the private sector to gain access to lucrative contracts for the delivery of traditionally public services.

Privatisation in general is attracting considerable opposition from segments of the labour movement. The most vigorous actors in this regard are public sector unions, including unions in the education and health sectors. The global union federations for the public sector unions, Public Services International (PSI), and the education sector, Education International (EI), have become very active in challenging all of the international financial institutions on the privatisation issue. At the Bank and the Fund, they have been critical of the privatisation initiatives, especially in energy and water. At the WTO, they have also seen the current round of negotiations on the liberalization of services trade under the General Agreement for Trade in Services as a major threat to public services in developing countries. Although the advocates of liberalization in the WTO context argue that liberalization does not mean privatisation, the unions have argued that the aim of liberalization in services is only to allow businesses (i.e. the private sector) to gain access to lucrative contracts for the delivery of traditionally public services, and that this does indeed mean privatisation.

If the ILO gets involved in this particular debate, it will be on the basis of the ongoing dialogue between governments, employers, and workers at the sectoral level. Many of the recent sectoral meetings at the ILO have featured the issue of privatisation – in public utilities, municipal services, health services, and postal and telecommunications sectors, for example.⁶⁴ At these meetings, the workers have tended to condemn the trend, while the employers and many governments have tended to defend it, with the result that the conclusions from these meetings produce fairly balanced expressions of concern about the procedural issues, without suggesting a negative or positive position on the subject of privatisation itself. The ILO is also engaged in research on the impact of privatisation on workers' rights and employment, but again without necessarily taking a position for or against privatisation.

⁶⁴ Sectoral meetings at the ILO have generally featured a background report on the chosen subject, a report on the meeting itself, a set of conclusions and, if the group agrees to consider them, resolutions on issues not covered in the initial focus of the meeting.

<http://www.ilo.org/public/english/dialogue/sector/conf/index.htm>

"ICFTU says the needs of developing countries must be respected at Cancun, 28 July 2003

<http://www.icftu.org/displaydocument.asp?Index=991218329&Language=EN> and ICFTU, "Trade Union Statement on the Agenda for the Fifth WTO Ministerial in Cancun," at

<http://www.icftu.org/displaydocument.asp?Index=991217396&Language=EN>

"WTO negotiators must respect public services,"

<http://www.icftu.org/displaydocument.asp?Index=991218240&Language=EN>

7 The Future of the ILO Policy Dialogue with the IFIs

In this paper we have looked at the evolution of the policy dialogue between the ILO and the international financial institutions, with an emphasis on some of the major policy issues that have dominated this dialogue. Increasingly, the dialogue has moved from a search for compatibility on basic development policies – structural adjustment, employment promotion, core labour policies, social security reform, and privatisation – to a concern about the interaction between domestically driven development policies and the global economy.

The protests against globalization in Seattle and Porto Alegre (and more recently in Geneva, with the anti-G8 protests of June 2003) have had their impact on the growing awareness of the importance of the social dimension of globalization but also of the interaction between trade and development.

Thus the policy dialogue has increasingly shifted to the WTO and to trade-related issues. This was highlighted in a recent policy speech by the German Federal Minister for Cooperation and Development Heidemarie Wieczorek-Zeul in Geneva in July 2003. As the Minister put it, “The Doha development round must be seen as part of efforts to shape globalization in such a way that it is socially just and also involves the developing countries.” She expressed support for the decision in Doha to put development policy at the top of the WTO agenda, citing the increased importance of trade as the key to prosperity and growth in developing countries. At both the Monterrey Conference on Financing for Development in March 2002 and the World Summit on Sustainable Development in Johannesburg in August/September 2002, attention was drawn to the role of trade in sustainable poverty reduction. She identified the three conferences – Doha, Monterrey and Johannesburg as part of an overall vision “to shape globalization in such a way as to involve the developing countries and make it socially just and ecologically viable.”

Minister Wieczorek-Zeul has suggested that there is a “new Renaissance” of multilateralism emerging and that there are visible efforts underway to improve coordination and the commitment to eradicating poverty and hunger. As the Director-General of UNCTAD, Rubens Ricupero, said in closing the session, this can only be done by promoting renewed growth. The key to growth in the developing countries is high growth in the industrialized countries, and this is in the common interest of all. From the ILO perspective, this would suggest the importance of coordinated macroeconomic policies among industrial countries aimed at stimulating growth.

8 Recommendations and Conclusion

The main challenge for all of the international institutions is to make trade and development policy more coherent, and this means more than mere convergence in policy positions.

The main challenge for all of the international institutions is to make trade and development policy more coherent. This means more than mere convergence in policy positions; rather, it means a concerted effort at an actual coordination of policies among the international institutions. The key here is for the member governments themselves to establish consistent and coherent positions in their dealings with the various international institutions. The institutions themselves cannot bring about this coherence in policy without a commitment to coherence on the part of their respective members, but there are signs that this may be happening. An important and promising avenue here is the Millennium Development Goals that have been adopted as the specific global goals for the world to realize by the year 2015.

First recommendation:

Emphasize the broad array of common concerns in a comprehensive policy dialogue

Associated with this MDG timeline is the issue of how liberalization of trade (and investment) might contribute to a broadened understanding of sustainable development on the whole, including not only economic development but socially and environmentally sustainable development as well.⁶⁵ On this front, the ILO has an established reputation for expertise on employment and job creation strategies. It is also the best voice to prod governments to elevate employment and job creation to the level of a specific priority in their macroeconomic policies. And the ILO is promoting a participatory framework for social dialogue. These strengths are the logical basis for a broadened institutional relationship between the WTO and the ILO, just as they have featured prominently in the ILO's relationship with the Bretton Woods institutions. Thus *the first recommendation is for the ILO to emphasize the importance of the broad array of common concerns about employment and social protection and thereby set the stage for a more comprehensive dialogue between the ILO and the WTO – as well as the Bank and the Fund, and the UN system generally.*

⁶⁵ The growing acceptance of efforts to coordinate the multilateral environmental agreements with the WTO rules would suggest that a similar acceptance might evolve on the coordination of labour policies with the WTO rules, as long as the focus is on coordination. However, the precedent set by the TRIPS Agreement on intellectual property rights in the WTO, where enforcement of intellectual property rights is placed directly in the WTO setting, is contributing to the resistance of any linkage between the WTO and labour standards. This matter has contributed, as well, to the difficulties in reaching agreement on the "affordable treatment" issue, pitting the pharmaceutical giants, which want to protect their patents, against the developing countries, which want access to generic alternatives for HIV/AIDS drugs, among others.

Second recommendation:

Develop an incentives-based, multi-track approach to labour standards

Even on labour standards some possibilities can be seen for a multi-institutional policy coherence. The changes that are underway at the World Bank, the acceptance of core labour standards in IMF statements, and the broadening appreciation of an incentives-based approach to labour standards as opposed to sanctions or conditionality would suggest that the potential is growing for a substantive set of initiatives involving the WTO and the ILO. The EU is proposing a constructive strategy to accomplish this.⁶⁶ The EU position emphasizes an incentives-based approach and a multi-faceted approach to core labour standards, and not a sanctions-based approach. This includes integration of core labour standards in the Union's GSP programme, development policy, and Country Strategy Papers, as well as a comprehensive campaign on child labour and a commitment to examine core labour standards in its own trade policies. The ultimate aim, according to the European Commission, is to achieve observer status for the ILO in the WTO, much in the same way that it has attained this status at the Fund and the World Bank. This should be encouraged.

Such an *incentives-based, multi-track approach to labour standards, then, is the second recommendation* for the future policy dialogue. What is interesting is that the kinds of policy discussion on labour standards that are actually of interest to both the WTO and the ILO, such as the impact of trade on gender or on displaced workers, are already taking place, but not in the context of any direct communication between the two. These concerns are being expressed in other forums as well, and the WTO and the ILO have their own roles to play with regard to these concerns. Some advocates of such a dialogue are suggesting that it would even be in the interest of developing countries with a good record on labour standards to use this engagement in dialogue to their competitive advantage.⁶⁷ The resistance to a linkage between labour standards and sanctions from developing countries and the business community would suggest that consideration should be given to how the WTO itself might fit into such an incentives-based system.⁶⁸ The incorporation of incentives in the implementing machinery of the WTO merits some attention. In addition, the ILO itself would need to establish a consensus among its own constituents for a common approach.

Even on labour standards some possibilities can be seen for a multi-institutional policy coherence.

The resistance to a linkage between labour standards and sanctions from developing countries and the business community would suggest that consideration should be given to how the WTO itself might fit into such an incentives-based system.

66 "Trade and Labour: European Commission welcomes Council conclusions on promoting core labour standards and trade," 21 July 2003 as reported in

http://europa.eu.int/comm/trade/issues/global/social/pr210703_en.htm

See also: "Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee: Promoting core labour standards and improving social governance in the context of globalization," COM (2001) 416 final (18.7.2001). at

<http://europa.eu.int/comm/trade/issues/global/development/cls.htm>

67 See, for example, Sandra Polaski, "Trade and Labor Standards: A Strategy for Developing Countries," Carnegie Endowment for International Peace (Washington, DC: 2003) and Werner Sengenberger, "Globalisation and Social Progress: The Role and Impact of International Labour Standards," Friedrich Ebert Stiftung (Bonn: December 2002).

68 The trade unions have urged a more institutionalised approach through an "independent joint WTO-ILO structure that would watch over the respect for core labour standards and the relations between commercial agreements, core labour standards and decent employment." Such a structure would also address wider trade-related social issues, such as the impact of trade policies on women or the need for adjustment assistance to displaced workers. While these kinds of proposals for a more formalised institutional relationship continue to be put forward, there continues to be such strong opposition from most of the developing country members of the WTO to any broadened contact with the ILO that it is unlikely that any changes will occur in such a directly bilateral relationship in the near future. See: "Trade Union Statement on the Agenda for the 5th Ministerial Conference of the WTO," http://www.cmt-wcl.org/start2_en.htm

Third Recommendation:

Improve the ILO's approach to partnering and implementing its programmes

This brings us to the present paper's third and last recommendation. How can the ILO play a significant role in a policy dialogue with international financial institutions whose resource base is so much larger than its own? And how can the ILO be a credible and legitimate advocate of its position when its own supervisory and implementation mechanisms are under attack? The key here is that these institutions are not going to displace the ILO itself. The simple fact that they might opt to develop expertise on labour markets and labour standards does not mean that they are going to take over the standard-setting function and the knowledge accumulated by the ILO on how to develop and interpret international labour standards or employment and social protection strategies or processes of social dialogue. The ILO does have an important contribution to make, but it needs to become more effective and representative of work-related interests and the ways in which these workplace interests intersect with community interests in general.⁶⁹

The challenge for the ILO is to continue to evolve in its own approach to social issues to enable it to offer realistic and comprehensive solutions to fulfil the dreams of equality, poverty eradication and an equitable distribution of resources and to ensure social justice for all.

The new multilateralism also calls for a readiness for new partnerships both within each organization and among the organizations of the international system. It is encouraging to note that Michel Camdessus, in suggesting how international governance might be improved, has called for improved coordination between the IMF, the World Bank, the WTO, and the ILO. The present author agrees that the ILO is an essential ingredient of the kind of "Renaissance" of multilateralism that Heidemarie Wieczorek-Zeul described in her July 2003 speech. *Thus the third recommendation is that the ILO needs to improve its own approach to partnering as well as its own supervisory and implementation mechanisms in order to make this happen.* The challenge for the ILO is to continue to evolve in its own approach to social issues so that it is able to offer realistic and comprehensive solutions to fulfil the dreams of equality, poverty eradication and an equitable distribution of resources and to ensure social justice for all. If these other institutions take on similar tasks, this should be welcomed as a means to ensure convergence in the interpretation of social justice and coherence in the efforts to achieve it.

In conclusion, the present paper has shown how the policy dialogue between the ILO and the international financial institutions on employment, core labour standards, social protection, and privatisation has moved towards convergence. It describes the evolution of this dialogue from the initial confrontations over structural adjustment to the convergence of thinking on the importance of social development to the growing awareness of the interaction between trade and development. It is time for this dialogue to move beyond the search for policy convergence to a partnering for policy coherence on trade, development, and social justice. With these three recommendations, the ILO's policy dialogue can become an integral part of a "new Renaissance" of multilateralism as well as of a more coherent international system.

⁶⁹ See, for example, the article on the ILO by this same author.

Further Occasional Papers:

N° 1 / December 2002

***New Steps to Faster and Broader Debt Relief
for Developing Countries***

N° 2 / January 2003

Pedro Morazán

Deuda externa: Nuevas crisis, nuevas soluciones?

N° 3 / March 2003

***Money Laundering and Tax Havens:
The Hidden Billions for Development***

N° 4 / April 2003

Michaela Eglin

***The General Agreement on Trade in Services (GATS) –
A Background Note***

N° 5 / April 2003

Sophia Murphy

***The Uruguay Round Agreement on Agriculture
and its Renegotiation***

N° 6 / May 2003

Eva Hartmann / Christoph Scherrer

***Negotiations on Trade in Services –
The Position of the Trade Unions on GATS***

N° 7 / July 2003

Brigitte Young / Hella Hoppe

***The Doha Development Round,
Gender and Social Reproduction***

N° 8 / July 2003

Eric Teo Chu Cheow

Privatisation of Water Supply



On the author:

Katherine Hagen has had a long and varied interest in the International Labor Organization. She served as Deputy Director-General for External Relations from 1994 to 1998 and Executive Director for Social Dialogue from 1998 to 2000. During these years, she was closely involved with the Social Summit and its follow-up, with the ILO's policy dialogue with the Bretton Woods institutions, and with the strengthening of the partners and institutions of social dialogue. However, long before her tenure at the ILO, she had studied the institution in the context of a theoretical interpretation of democratic decision-making structures in international organizations, which was part of her post-doctoral studies following on her Ph.D. dissertation on decision-making in the UN Secretariat.

Katherine's varied and international career has taken her from academia into local politics, women's rights and labor relations policies in the United States. In 2001, Katherine established a consulting firm on corporate social responsibility and social dialogue, Hagen Resources International. She currently works with private and public clients, concentrating primarily on multistakeholder relationships.

For further information on Dialogue on Globalization, please contact:

Friedrich-Ebert-Stiftung Berlin
Hiroshimastrasse 17
D-10785 Berlin
Tel.: ++49-30-26-935-914
Fax: ++49-30-26-935-959
Roswitha.Kiewitt@fes.de
www.fes.de
www.fes.de/globalization

Friedrich-Ebert-Stiftung
Geneva Office
Chemin du Point-du-Jour 6 bis
CH-1202, Geneva
Tel.: ++41-22-733-3450
Fax: ++41-22-733-3545
fes.geneva@ties.itu.int
www.fes-geneva.org

Friedrich-Ebert-Stiftung
New York Office
823 United Nations Plaza, Suite 711
New York, N.Y. 10017
Tel.: ++1-212-687-0208
Fax: ++1-212-687-0261
fesny@fesny.org
www.fesny.org