

LABOUR AND SOCIAL JUSTICE

STRONG LABOR MARKET INSTITUTIONS

– for decent work and greater inclusion

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This paper examines whether lending by the IMF and World Bank since 2015 is in alignment with the UN 2030 Agenda's Sustainable Development Goals 8 and 10.



The author finds that labor market policy recommendations have served to weaken, not strengthen progress toward increasing decent work and lessening inequality.



The way forward will be through increased access to labor markets for all categories of workers and the establishment universal social protection floors.

INTRODUCTION

2020 marks four years since the United Nations Member States adopted the 2030 Agenda with 17 overlapping Sustainable Development Goals (SDGs). The goals are reviewed in the annual High-level Political Forum (HLPF). Goal 8, on decent work, and Goal 10, on reducing inequality, were among the six goals identified for review by the HLPF in 2019. Since the SDGs were adopted, numerous countries have implemented the policy recommendations and accepted the loan conditions of the Bretton Woods Institutions (BWIs)—the International Monetary Fund (the Fund, or IMF) and the World Bank (the Bank), with far-reaching consequences. This paper finds that the policy advice and lending operations of the BWIs are not aligned effectively with the key targets of these goals.

The paper also attempts to disentangle the extent of policy misalignment and divergence from the SDGs by examining countries that have received both a loan program from the IMF and Development Policy Financing (DPF) from the World Bank. The paper identifies three main obstacles that hinder the alignment of BWI operations with the goals of decent work and reducing inequality:

- 1) The BWIs' operations weaken labor market institutions such as minimum wage, severance pay, and collective bargaining systems;
- 2) The BWIs' policy advice promotes regressive policies such as the rapid withdrawal of consumer subsidies and the introduction of value-added taxes that widen inequality; and
- 3) There is a lack of policy coherence between the BWIs' lending operations and the International Labour Organization's decent work agenda.

Finally, the article offers recommendations to ensure better policy alignment between the BWIs and SDGs through better policy coherence throughout the multilateral system, progressive taxation, universal social protection, strengthened labor market institutions, and dialogue between the BWIs and trade unions.

BWI LENDING POLICIES PURSUE ECONOMIC GROWTH AND UNDERMINE DECENT WORK

How do the operations of the Bank and the Fund affect the SDGs on decent work and inequality? The main channel is via their treatment of labor market institutions through loan conditionality and policy surveillance (Radwan 2020). The author of this paper has utilized keyword searches of the IMF Monitor's Article IV Scanner to search for information relevant to labor market institutions and inequality. An examination of IMF annual Article IV country reports and reviews for countries with loan programs provides a picture of the labor market reforms promoted by the Fund. Table 1 below shows the author's compilation of selected countries with the IMF Article IV reviews and World Bank DPF since 2016. It is noteworthy that both the Bank's and the Fund's labor market and social

policy advice have promoted fiscal consolidation through supply-side reforms in emerging market countries.

Table 1:
Selected countries for IMF Article IV reviews/World Bank Development Policy Financing (DPF) loans since 2016

SN	Countries	Year of IMF Article IV reviews	Year of World Bank DPF
	Argentina	2016, 2017	2018, 2019
	Angola	2016	2019
	Benin	NIL	2018
	Egypt	2017	2016, 2017 & 2018
	Ecuador	2016, 2019	2019
	Jamaica	2016, 2018	2017
	Mongolia	2017	2017

Source: Author's compilation

The labor market reforms promoted by the BWIs affect the achievement of the SDGs on decent work and inequality reduction in three major areas: minimum wages, severance pay, and the dismantling of collective bargaining. As a result, countries that have implemented the BWIs' social and wage policies have introduced a series of measures that depress wages and remove supposed labor market rigidities to increase what the World Bank calls the "ease of doing business." The Doing Business report, which has long promoted supply-side labor deregulation, is also a key conduit of influence (World Bank 2019).

WAGE FIXING WITHOUT SOCIAL DIALOGUE

To obtain World Bank Development Policy Financing, the borrower and Bank agree to conditions called "prior actions" that must be taken in order to access the bank loan. Table 2 below depicts the project titles and loan packages provided to selected member countries. The selection of the countries was based on the member countries that implemented the Bank's DPF loans with specific reference to labor market institutions. The author has read the "prior actions" component in the Development Policy Financing project documents of the loan recipient countries and extracted information relevant to labor market institutions and inequality. In Ecuador, for example, World Bank Development Policy Financing requires the authorities to dismantle what it calls "rigid labor laws that protect public sector employment" (World Bank 2019). The Bank's actions aim to ease private-sector investment and remove the regulatory uncertainty that impedes economic growth. It sets targets to contain labor through public wage cuts by coupling public wages with those prevailing in the private sector. The impulse of the Bank is to target labor's share of wages, which it considers a distortion of the equilibrium wage in the market. The IMF in its Article IV consultations reinforces the Bank's attack on wages by calling for a less rigid contract of employment, increases in the probationary period for employment, and a reduction in the public wage bill. These actions make it clear that a social dialogue and collective bargaining framework is absent from the BWIs' drive to achieve labor market flexibilization.

Table 2:

Project titles of the World Bank Development Policy Financing to selected member countries

Countries	Project title	Period	Amount in million USD
Angola	Angola growth and inclusion Development Policy Financing	2019	500
Argentina	First Inclusive Growth Development Program	2018	500
	Second Inclusive Growth Development Program	2019	500
Ecuador	First Inclusive and Sustainable Growth DPF	2019	500
Egypt	Egypt sustainable energy program	2016	1000
	Private-sector development for inclusive growth DFP	2018	1000
	Egypt private-sector development for inclusive growth DPF	2018	1000

Source: World Bank DPF documents for selected countries

Similar to the situation in Ecuador, in Egypt the authorities were advised by the Bank to contain public wage bills, i.e., the total amount spent on the wages of workers in the public sector. The Egypt DPF stated that “progress on containing wages can be measured by the ratio of the Central Government’s wage and salary bill to nominal GDP. In FY15, this ratio was 8.2 per cent, with a target to lower it to 7.4 percent of GDP in FY18” (World Bank 2016: 21). In the same vein, Egypt’s 2016 IMF Article IV consultation, which recommended a reduction of the government wage bill through the revision of public compensation packages, led to a reduction in bonuses and other compensation (IMF 2016). It is noteworthy that the IMF approach to wages tends to negate social dialogue as the essential instrument of labor governance. The IMF typically advises countries to restrain public and private wages in relation to productivity growth or inflation targets, leaving wage fixing to the forces of supply and demand. This approach to minimum wages undermines the “social contract”: in return for labor’s contribution to growth and prosperity, workers are supposed to be protected against the vicissitudes of the market and their rights respected (ILO 2019). Furthermore, in Ukraine the IMF advised the authorities to decouple collective agreements from minimum wages as a way to reduce the cost of doing business (IMF 2016).

The foregoing operations indicate that the IMF uses a carrot (providing access to IMF loans in cases where there is no active loan program) as well as a big stick (its loan conditionality). What is interesting about recent IMF loan programs, as compared to the European programs, is that there is less explicit labor conditionality. Nonetheless, the IMF’s strict fiscal targets and strongly worded policy advice still result in a weakening of labor market institutions (for example, the massive cuts to public employment in Ecuador and moves to expand the use of temporary contracts elsewhere). The Bank uses the stick strategy through its prior actions, which compel countries to implement the market-led strategies of the BWIs as a condition for a Bank loan. These practices undermine the attainment of productive employment, labor rights, and social dialogue as constitutive elements of decent work.

Hence, the BWIs endanger multilateralism in the design of labor market policies by privileging economic growth (efficiency gains) at the expense of labor protection (the equity gains) (Duval and Loungani 2019).

DISMANTLING COLLECTIVE BARGAINING AND SEVERANCE PAY

In Argentina, the IMF advised the authorities to undertake labor market flexibilization to lower the cost of severance pay, simplify dismissal procedures and limit the coverage of collective bargaining through increased use of opt-out clauses from sectoral agreements (IMF 2017). Similarly, in Ecuador’s 2016 Article IV consultation, the IMF advised authorities to review legislation in order to lessen the cost of dismissal, reduce hiring and firing costs and eliminate severance payment for workers (IMF 2016). Firm-level collective bargaining is promoted by the BWIs, and the IMF rarely misses an opportunity to weaken sectoral bargaining systems when a country requests assistance (Janssen 2018). Despite the adoption of the SDGs and statements about more inclusive approaches, BWI operations remain an avenue for the imposition of private sector interests while undermining the instrument of social dialogue in which labor and capital can negotiate.

BWIS’ REGRESSIVE DISTRIBUTIONAL POLICIES WIDEN ECONOMIC AND WAGE INEQUALITIES

The second reason why the BWIs’ operations have not been aligned with the SDGs on decent work and inequality reduction concerns the dismantling of labor protections and disengagement of the state from key social services. For example, in Egypt, the deregulation of the labor market was accompanied by austerity—“fiscal consolidation” in the language of the BWIs—and the removal of subsidies (especially energy subsidies). In Egypt, World Bank Development Policy Financing required fiscal consolidation including energy subsidy reform; for example, “The subsidy bill which was at 6.6 per cent in FY2013/14 is now expected

to reach 3.2 per cent of GDP by FY2017/18, and 1.4 per cent of GDP by FY2018/19, continuing a downward trend thereafter” (World Bank 2016: 23). Although fuel subsidies can be regressive in nature, the rapid withdrawal of subsidies for basic goods has a disproportionately negative effect on poor and working people. Similarly, the government introduced value-added tax (VAT) as a way of improving fiscal balances. In Angola, the IMF advised the authorities to eliminate electricity and water subsidies and cushion the negative effects of this action through targeted social assistance (IMF 2016). Narrowly targeted social assistance has been shown to erroneously exclude many qualified recipients (Kidd, Gelders & Bailey-Athias 2017), and most social safety nets have proved to be inadequate in protecting the right to social security and to a decent standard of living (Abdo, 2019). Far from the BWIs’ dream of achieving equity through the deregulation of labor market institutions in their lending operations, these policies have resulted in an increase in social unrest and have exacerbated inequality in these countries. Honduras, Ecuador, Iran, and Jordan are among the countries where riots and unrest have resulted from IMF policy interventions (Bretton Woods Project 2019).

The 2030 Agenda is endangered by a lack of financial resources to implement the SDGs. The Addis Ababa Action Agenda and the Inter-agency Task Force on Financing for Development are underpinned by the commitment to mobilize resources for the SDGs. However, many country strategies and Voluntary National Reviews do not spell out their financing capacity for the SDGs. Domestic resource mobilization through tax reforms is a major vehicle for financing the SDGs (United Nations 2019). Although the BWIs support greater domestic resource mobilization in their policy advice and conditionality, this has meant the expansion of regressive taxation rather than progressive taxation that can fund the SDGs and simultaneously contribute to inequality reduction under SDG 10.

Since the 1980s developing countries have implemented many tax reforms, for example, replacing trade taxes with consumption taxes such as VAT to leverage trade liberalization as a catalyst for economic growth (Avi-yonah and Margalioth 2007). It is noteworthy that VAT is a common element of tax-related proposals in IMF Article IV reports and in World Bank Development Policy Financing. VAT serves as a structural reform requirement that borrowing countries must undertake alongside cuts in trade tariffs and direct taxes. Meanwhile, progressive tax mobilization through corporate taxation is in steady decline globally. This is tied to the history of the BWIs’ pressure on developing countries to open their markets and adopt policies to attract foreign direct investment. Policy advice on the elimination of tariff barriers and on adopting regressive taxation through VAT has effects on the labor market. The former leads to social dumping of finished goods from advanced economies, which frustrates efforts to achieve full industrialization in developing countries, while VAT erodes wage gains for working people, who spend most of their earnings on consumption.

However, equity considerations have informed the basis of examining the welfare-enhancing capacity of consumption taxes and corporate taxes (Avi-Yonah and Margalioth 2007). VAT has had mixed outcomes in developing countries given the economic structures of low-income countries, many of which are based on agriculture and marked by large informal sectors, government capture by elites, weak administrative capacities, and low literacy levels (Donald and Lusiani 2017). The context of developing countries provides a further conducive atmosphere for illicit financial flows and tax evasion or planning by multinational corporations. For developing countries, tax-related financial flows remain a complex theater of economic sabotage. For example, the High Level Panel on Illicit Financial Flows from Africa has decried the fact that a major source of tax evasion is multinational corporations leveraging the services of sophisticated offshore industries, including international banks, law firms, and large accounting firms to design tax-planning schemes with the ultimate aim of minimizing payments on a consolidated basis (United Nations 2019).

Fiscal consolidation has helped countries to adjust their macroeconomic policies to meet the efficiency target of raising the ratio of revenue to GDP. The policy recommendations of the BWIs seek to accomplish this through narrowly targeting social protection, removing worker protections, withdrawing consumer subsidies, and introducing consumption taxes, all of which are policies that are not aligned with the SDGs. These measures accelerate economic and wage inequality, especially the gender dimension of inequality. Women often bear the brunt of BWI policies, in particular consumption taxes and cuts to public employment and services. Unpaid domestic and care burdens can increase as a result. Furthermore, the BWIs’ lending operations compel countries to embrace flexible labor market rules. These practices undermine key labor standards such as collective bargaining, freedom of association, and adequate, living minimum wages. As a result, the BWIs are increasingly undermining decent work and contributing to inequality. Labor market institutions, public services, and progressive taxation need to be strengthened as key drivers to achieve the SDGs on decent work and inequality reduction.

STRENGTHENING LABOR MARKET INSTITUTIONS IS THE KEY TO LEAVING NO ONE BEHIND

When appropriately coordinated and designed, labor market institutions are key instruments for ensuring inclusive and sustained economic growth (Duval and Loungani 2019). In their response to the 2019 Annual Meetings of the World Bank and the IMF, the Global Unions strongly supported strengthening of labor market institutions: building labor market institutions, preserving or strengthening centralized collective bargaining, and increasing investment would, they affirmed, set in motion a virtuous circle of policies for inclusive and sustainable growth (Global Unions 2019). Labor market institutions are regulatory mechanisms designed to regulate the labor market so that profitability gains can be shared equitably between labor and capital. Thus, labor market reforms promoted by the BWIs, especially those

related to wages, collective bargaining, and pensions, should be designed to support the elements of Sustainable Development Goals 8 and 10.

CONCLUSION AND A WAY FORWARD

This paper has found that the BWI's labor market policy recommendations are weakening progress toward the SDGs on decent work and inequality. This was evidenced by the BWI recommendations to dismantle collective bargaining, eliminate severance pay, and erode wages. Removing rigidities in the labor market will not bring about full employment; it will only worsen workers' wellbeing, increase inequality, and promote private investment that excludes labor from productivity gains. There is an apparent synergy between the IMF and the World Bank in promoting economic growth through private-sector investment, with places low emphasis on increasing the sustainability of growth through the instruments of social dialogue. Consequently, the labor market deregulation promoted by the BWIs exacerbates wage and income inequality, as well as compounding social unrest due to the rolling back of the state from welfare provision through subsidy removal and the targeting of social protection schemes. Building and strengthening labor market institutions is key to addressing economic and gender inequalities. Societies can reduce inequalities through increased access to labor markets for all categories of workers in society and the establishment of a universal social protection floor that protects both those who are unable to find work and those who earn little from work.

SDG Goal 17 calls for policy coherence in the implementation of the 2030 Agenda. The lack of policy coherence between the BWIs' lending policies and the UN Sustainable Development Goals, especially the elements of the International Labour Organization (ILO) Decent Work Agenda in the SDGs, is clear in countries that have implemented BWI policy recommendations since 2016. This policy divergence can be seen from the lack of coherence between BWI lending operations and core labor standards, including freedom of association and the right to collective bargaining. To achieve the SDGs by the year 2030, the BWIs need to foster a truly multilateral approach to economic governance and respect key UN agreements on labor markets, including the Decent Work Agenda and the ILO Centenary Declaration for the Future of Work. Leaving no one behind requires policy alignment between the economic, social, and environmental dimensions of the SDGs and the operations of the BWIs. This also requires dialogue between the BWIs and trade unions at the national, regional, and global levels, which are on the front lines of inequality and the world of work.

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Since the SDGs were adopted in 2015, many countries have implemented policy recommendations and accepted loan conditions of the IMF and World Bank (BWIs); this paper examines whether this lending is in alignment with the UN 2030 Agenda's Sustainable Development Goals 8 and 10.



The author finds that the policy advice and lending operations of the BWIs have not been aligned effectively with the key targets of these goals; thus, recommended labor market policies have served to weaken, rather than strengthen progress toward decent work and greater economic equity.



The way forward, to remedy the lack of policy coherence between the BWIs' lending policies and the SDGs, will be through the embrace of increased access to labor markets for all categories of workers and the establishment of universal social protection floors.

Further information on the topic can be found here:
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