

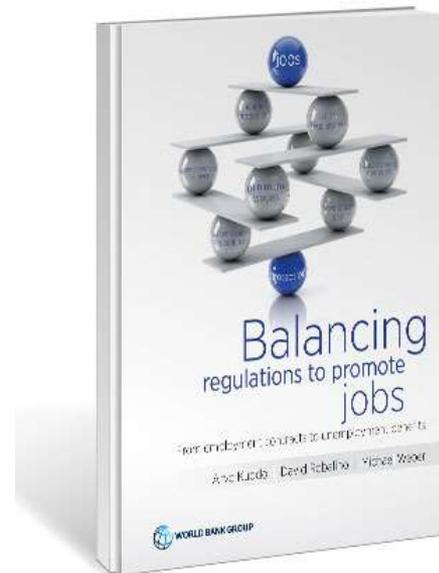
Two steps forward, one step back: World Bank labour market policies

- Hostility toward freedom of association and collective bargaining as part of Washington Consensus
- 2003: pulling in opposite directions
 - World Bank releases research showing collective bargaining and freedom of association do not harm growth and boost equitable distribution of income
 - *Doing Business Report* launched with Hiring and Firing Workers category (later Employing Workers Indicator) that boosted country rankings based on the least amount of employment protection legislation and labour regulations. Georgia listed as biggest reformer in 2007 based on labour reform the previous year
 - Employing Workers Indicator suspended in 2009 under trade union, government pressure.
- *Doing Business* continues to gather data but not use in calculating rankings, still focuses on jobs as an outcome of deregulation
 - Recently used in social protection white paper, IMF Article IV country report on Bahamas



2013-2017: decisive progress

- *World Development Report 2013: Jobs* finds that labour regulations, minimum wages have a small, if any, effect on employment. Governments can determine level of regulation so long as stay in broad 'plateau' between under- and over-regulation. Cannot only focus on job creation, need to boost job quality, core labour standards
- *Balancing Regulations to Promote Jobs* provided more thorough advice for Bank staff and countries, warning against under-regulation of labour markets. Downgraded from manual to report. Implementation lagged.
- World Bank adopts labour standards to protect workers on its loan projects



Off balance: Back to pro-business deregulation

- *World Development Report 2019: The Changing nature of work*
 - An initial draft claimed inequality was not a problem, minimum wages should be eliminated or strictly pegged to productivity, deregulation of labour markets, zero-hour and weakened employment contracts, flexibility to allow firms to adapt to automatization and other trends, changing laws to accommodate platform, misclassified and temporary employment
- *Protecting All* – proposals that were ultimately removed from final draft of the World Development Report re-appear
 - Despite its failure in Europe and abandonment by OECD and European Commission, calls for flexicurity model
 - Suppression of minimum wages
 - From tripartism to pentapartite setup with separate representation of temporary and informal workers, small and medium businesses
- Informality was the main weakness of the 2013 World Development Report: 'Informal is normal'
 - World Bank management pessimistic about possibilities of transitions from the informal to the formal economy and are not making a focus

the guardian

World Bank recommends fewer regulations protecting workers

Unions alarmed by suggestion that deep structural reforms are required to adjust to changing nature of work



Labour regulations, collective bargaining and public employment in World Bank lending

- Turkey: legalize temporary employment contracts
- Serbia: limits on number of public workers, leading to net reduction 28,500; new pay grade system. Interacted with IMF budget pressure, advice to reduce public wage bill and institute hiring freeze
- Bosnia and Herzegovina: “cease the validity of the current collective bargaining agreements and limit the duration of new collective agreements to three years”

The World Bank and gender equality
Development Policy Financing
AUGUST 2019



IMF's dismantling of collective bargaining fails to deliver employment, recovery

- IMF faith in export-led recovery and growth, built on low wages, currency devaluation and dismantling collective bargaining
 - Ignores importance of boosting demand for recovery
 - Does not deliver promise of boost to employment and growth
 - Wage stagnation and cuts add to negative economic effects of austerity
- Focus is on flexibility: work arrangements, no extension of collective agreements, ability of firms to set wages and dismiss workers
- Capaldo and Izurieta find that “even in export-led regimes, after considering global feedbacks, flexibilization policies do not lead to higher income and employment. Rather, the end result is contractionary”



IMF research makes some strides...

- *Inequality and labour market institutions*: “the erosion of labor market institutions is associated with the rise of income inequality...the decline in unionization is related to the rise of top income shares and less redistribution, while the erosion of minimum wages is correlated with considerable increases in overall inequality.”
- *Employment protection deregulation*: “We find a statistically significant, economically large and robust negative effect of deregulation on the labor share...suggest that job protection deregulation may have contributed about 15 percent to the average labor share decline in advanced economies... point to the need for assessing the effects of labor market reform plans on a wide range of macroeconomic outcomes—including productivity, employment and output, but also wages and labor shares—and for addressing trade-offs”
- Caveats remain: flexibility is central, trade-offs to higher minimum wages, centralized collective bargaining and employment protection legislation



IMF Working Paper

Employment Protection Deregulation and
Labor Shares in Advanced Economies

...but changes in operations are limited

- **Chile, 2015:** “Empirical evidence suggests that greater unionization and more extensive collective bargaining may help reduce wage inequality and promote social dialogue. But changes in labor market institutions should not happen at the cost of reducing labor market efficiency. In this regard, it is particularly important that the reform maintains collective bargaining at the firm level and introduces more flexible work arrangements within the collective bargaining process (independently of the level of unionization within the firm). **Protecting workers’ right to strike should be balanced by clearly defining the range of “minimum services”** that are guaranteed in case of strikes while remaining mindful of the effects of the reform on small firms.
- **South Africa, 2016:** “reforms that increase wage flexibility are particularly important in bad times as they offer firms channels other than retrenchments to cut labor costs. Therefore, the introduction of the proposed national minimum wage should be accompanied by reforms that increase wage flexibility, including exempting SMEs from collective bargaining outcomes”
 - South Africa has the most developed centralized collective bargaining system in Africa, and dismantling it has been a constant piece of policy advice from the IMF

Suppressing public wage bills and minimum wages, increasing temporary work

- As the European programmes ended, IMF lending shifted to the Middle East and North Africa, and then major emerging economies including Argentina
 - Many of these countries do not have the coordinated and centralized bargaining systems that existed in European countries
 - Argentina and Tunisia do have advanced collective bargaining structures, but political sensitivities have led the IMF to avoid direct confrontation on collective bargaining
- In either case, the forefront of the battle is the public wage bill and minimum wages
 - In policy advice, the IMF also pressures countries to limit minimum wage increases and reduce spending on public salaries – usually through layoffs
 - Threatens sustainable economic growth and achievement of health and education goals
 - In Tunisia, public wage bill grew due to converting subcontracted workers to public employees, security needs.
 - IMF focuses on parity with region or similar countries, which can drag backwards countries that make progress
 - Expansion of insecure work also part of the recipe



IMF advice on labour market institutions

New paper on *Designing Labour Market Institutions in Emerging and Developing Economies*

- “Foster flexibility while strengthening safety nets” and considering “equity-efficiency trade-offs”
- IMF recommended decentralizing collective bargaining in Greece, South Africa, Argentina, Chile, the Philippines, Poland, Romania and Serbia.
- Extensions of collective agreements and sectoral/central bargaining should only take place under “strict conditions” of representativity, coordination and trust.
- Move from severance to unemployment insurance, but focus more on building unemployment insurance systems first and reducing severance, employment protection legislation after
- Minimum wages can help reduce inequality, but in many situations should be contained relative to the median wage. In such cases, use other tools such as tax credits utilized to address equity. Advice from IMF staff heavily focuses on containing the minimum wage. Differential minimum wages may be a solution.
- Deregulation measures such as temporary employment contracts can hurt productivity, working conditions and employment – *but*, can be addressed by “mild” protection for all workers.

