A trade union view on flexibility and security in labour markets

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2. Adequate regulation, social protection and workers’ rights

- A modern, well functioning market economy that equitably distributes income requires appropriate regulation, social protection and workers’ rights.

- "Unlike the markets for many commodities, labor markets generally are not competitive…. This can lead to unfair and inefficient outcomes when the bargaining position of the workers is weak…. Governments typically intervene to correct these failures: to protect workers and endow them with rights …, to ensure compliance with labor laws and regulations, and to provide insurance against income shocks" (World Bank, World Development Report 2006)
3. Interaction between regulation, social protection and workers rights

• Some substitution between regulation and social protection may be possible, but regulations still play a fundamental role:
  – Mandatory severance payments and stringent protection against dismissal may be less necessary when adequate unemployment benefits exist
  – When collective bargaining coverage is very high, some minimum standards may be deemed less necessary
  – However there are many types of labour regulations that play an irreplaceable role, especially for the most vulnerable workers: occupational health and safety, maximum work time, minimum wages, limits on fixed-term contracts, anti-discrimination rules, etc.
4. Focus on labour market regulations as “obstacle to growth”

- Since 1980s, some theorists and policymakers posited that labour regulations can be an important impediment to economic growth and job creation.

- Economic studies and literature reviews by ILO and OECD show the link to be tenuous and inconsistent, at best.

- Despite this, labour market deregulation was identified as one of the tenets of the “Washington Consensus” (Williamson, 1989) and recommendations to reduce labour market regulations were frequently included in IFI country-level policy advice.
5. One example of such focus: *Doing Business*

- In 2003, *Doing Business*, World Bank’s highest-circulation publication, claimed that “reduction of the scope of employment regulation has yielded positive results”
- *Doing Business* published an “Employing Workers Indicator” (EWI) which penalized countries with labour standards above certain thresholds
- EWI used in several country-level IMF and World Bank reports to recommend reduction of labour regulations
- Trade unions and ILO raised strong objections to the report and its use for labour market reforms
6. Subsequent developments concerning EWI of *Doing Business*

- June 2008: Report from WB’s Independent Evaluation Group on *Doing Business* finds “no significant association emerged between … employing workers [indicator] and employment”

- April 2009: WB announces that, in light of challenges posed by the global economic crisis, WB will remove EWI from the CPIA (WB’s access-to-resources framework), suspend its use in policy advice and work to create a new “worker protection indicator … with a view to creating robust jobs with adequate protection in the formal sector that can withstand future crises”

- October 2009: WB announces EWI will no longer be published
7. Differing labour market performances during 2008-2009 recession

- Global crisis and resulting sharp increase in unemployment have led to much questioning of pre-conceived ideas about the impact of employment policy and labour regulations.

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<th>GDP growth</th>
<th>Unemployment rate</th>
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<tr>
<td></td>
<td>2009/2008Q1</td>
<td>2012/2008Q1</td>
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<tr>
<td>Germany</td>
<td>-6.8%</td>
<td>+1.0%</td>
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<tr>
<td>USA</td>
<td>-4.5%</td>
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- United States reputed to have one of the least restrictive labour markets in the world (best EWI ranking among OECD countries) and Germany among the more restrictive (3rd worst EWI ranking in OECD).
8. Impact of weak labour-market regulations and institutions (i)

- In recessions, more flexibility has not had good outcome for workers; countries seem to weather recessions better with:
  - Appropriate regulation
  - Generous income-replacement programmes (which also act as automatic stabilizers)
  - Active labour market policies
  - Well-functioning tripartite dialogue (in Germany, this led to widespread implementation of reduced working time agreements)

- Recent ILO findings (*World of Work 2012*):
  - “No clear link between EPL and employment levels”
  - “Recent trend towards decentralized collective bargaining … may affect employment performance”
  - “Recent labour market reforms may reduce job stability and exacerbate inequality while failing to boost employment levels”
9. Impact of weak labour-market regulations and institutions (ii)

- Extensive recent study of the impact of deregulatory reforms (comparison of 22 countries over 23 years) showed increased labour-market flexibility had no statistically significant impact on employment rates, but did increase wage inequality (OECD, *Divided We Stand: Why Inequality Keeps Rising*, Dec 2011).

- "Reviews of international evidence agree on one consistent finding: the strength of labor market institutions in determining wages has a significant impact on the distribution of income … Given China’s desire to control the rise in inequality, the potential role of labor market institutions is therefore of importance." (World Bank, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*, Feb 2012)
10. Long-term challenge to overcome jobs crisis and reduce inequality

- Government should support investments with high employment intensity (such as “green jobs”); Social Protection Floor; and assess adequacy of labour regulations and their enforcement to create jobs and fight poverty and inequality

- In Brazil, higher minimum wages and a conditional cash transfer programmes have been very effective in bringing additional income into poor communities
  - WB’s Country Partnership Strategy for Brazil 2008-2011 states that “increases in the minimum wage” are one of the factors that explain why “Brazil’s income-inequality [previously among the highest in the world] is finally eroding”
11. Ingredients for successful reform processes

- In some cases, labour regulations may need reform; they must be country-specific and agreed through tripartite processes.
- Unions and employers’ organizations must be involved in every step of the reform process, not just for initial consultations.
- Reform processes should recognize the need for adequate level of labour regulations and particularly address the inevitable short-term and perhaps long-term costs of reform.
- Enhanced social protection intended to compensate for regulatory changes should precede labour law reform, not delayed to a later stage.
- ILO should be invited to provide expert advice and can help to facilitate the reform process.