

**Joint Report**  
**World Bank/IMF/International Trade Union Movement**  
**Technical Meeting on Labor Markets**  
**November 6-7, 2003**

**Summary**

The Technical Meeting on Labor Market Reform focused on international labor market trends and policy issues related to labor market regulations, informality, and collective bargaining. Participants included World Bank and IMF staff and representatives from international and national trade union organizations. The meeting concluded with a panel of Bank staff from various regions and sectors discussing the future directions of the World Bank in the area of labor market policies.

The technical meeting on labor market reform started with a short overview of the role of the World Bank in labor market reforms from Mike Walton (WB). He reported that unions had become more important in the World Bank's discussion since publication of the World Development Report 1995, acknowledging in particular the important role that unions have to play in the democratization process. There has, however, been less momentum in including labor market institutions in debates of sustainable growth and poverty reduction. Giving several country examples, he elaborated that inappropriate labor market institutions such as generous unemployment insurance schemes, high employment protection, high minimum wages and non-competitive wage-setting can lead to both higher and structural unemployment.

James Howard (ICFTU) responded that even though there is overall agreement on the fact that unions lead to more stability, security, and equality, this has not been reflected in the IFIs' work. He pointed out that no link can be found between deregulation of the economy and expansion of employment and requested that research should be done on this issue. Ronald Janssen (ETUC) reiterated that it has to be taken into account that labor market protections provide benefits to workers and the economy.

In discussing labor market trends worldwide Stefano Scarpetta (WB) cited empirical studies of OECD countries which pointed to the lack of aggregate demand and inappropriate labor market institutions as the main explanatory factors behind high unemployment. These factors also play a key role in a developing-country context. Often this phenomenon is caused by weak formal economies lacking a sufficient number of jobs, pushing workers towards the less productive informal sector. Together, unemployment and underemployment impose a heavy cost upon societies in terms of economic hardship, social exclusion, lost productivity, and wasted human potential and therefore present a challenge that requires immediate attention. A stocktaking of cross-country experience reveals that the design of effective policy schemes to fight unemployment is complex and country-specific in nature.

In the next session Austin Muneku (ICFTU-AFRO) and Bob Kyloh (ILO-ACTRAV) discussed the challenge of the informal sector for unions and the shift from collective to individual agreements. They also said that it is important to take into account the

demographic change in most developing countries, i.e. the cohort size entering the labor markets in the latter. Youth un/underemployment is central in this discussion, added Sabur Ghayur (ICFTU-APRO). Maitreyi Das (WB) stated that the informal sector is a pervasive and persistent economic feature of most developing economies, contributing significantly to employment creation, production, and income generation. She reported on different worker-organizations that were formed in the informal economy and the positive effects the informal sector organizations can have regarding training and education.

In the next session, Amy Luinstra and Gordon Betcherman gave a short overview of recent research conducted by the World Bank on the effects of unions and collective bargaining. The goal of the literature review was to offer a synthesis of the economic literature on trade unions and collective bargaining and their impact on micro-and macroeconomic outcomes. It concludes that with sound labor policies in place, governments, employers, and organized labor can work together in many ways to foster higher productivity growth and lower unemployment, while securing for workers a greater share in the benefits of growth. The Bank speakers also briefly described a new project on core labor standards, jobs creation, and poverty reduction in Africa funded by the German government for work over the 2004-2006 period.

Peter Bakvis (ICFTU/Global Unions) welcomed the Bank's publication entitled "Unions and Collective Bargaining", but pointed out that it underestimates many of the positive results of trade unions because of its micro approach, limited to estimating unions' impact through collective bargaining. He stated that the Bank might want to do further research on the role that trade unions have played in obtaining benefits such as minimum wages and social safety nets and government-provided health care for all workers, independently of whether they are union members.

In the next session, the IMF presented their research on labor market reform in Western Europe. The union response from Andrew Watt (ETUC), John Schmitt (consultant), and John Evans (TUAC) was highly critical, specifically challenging the labor market chapter of the April 2003 issue of the IMF's Economic Outlook in which the IMF argues that institutions (unemployment benefits rates, unionization, employment protection, labor taxes, and the coordination of collective bargaining) generally have a negative impact on employment outcomes. They stated that the analysis of growth and institutions in Europe received too little attention, especially given the changing macroeconomic environment following the move towards a single European monetary policy. Europe's biggest structural problem in terms of unemployment was its rigid, stability-oriented macro-policy regime, they concluded.

In the afternoon of Nov. 6<sup>th</sup>, the unions had bilateral meetings with country teams.

On Nov. 7<sup>th</sup> trade union representatives from Croatia, Sri Lanka, Argentina, and Colombia reported on these bilateral meetings with Bank staff. Some meetings were postponed to the afternoon, so that the reports were limited to a few examples.

Jasna Petrovic outlined the economic and social situation in Croatia. With double-digit unemployment, a majority of which are long-term unemployed, Croatia has undertaken some structural reforms under the guidance of the IMF, i.e. new laws on competition, bankruptcy and labor laws. The WB had advised the government on changes to the labor code. Petrovic criticized that the latest amendments, which came into force under the new labor law in July 2003, undermined workers' rights without providing valid indicators that demonstrate the need for these proposed amendments. Noting that unions were not consulted on these changes, she called for more transparency on the part of the IFIs when they are involved in reforms that affect workers.

Ghayur Sabur gave an overview of the labor market reforms which took place through the introduction of legal reforms in Sri Lanka: the change of the Factory Ordinance Law; the reform of the termination of Employment of Workmen Act; the change of the Industrial Dispute Act; and the amendment to employment of women, young persons and children's act. He welcomed the fact that the WB is considering the development of a HR-database, including some measurement of the salary structure. He asked to have access to this database.

Ruben Cortina, the Argentine trade union representative described IFI-led policy reform in Argentina including large-scale privatizations; the promotion of collective bargaining at the firm rather than industry level; and other labor market institutions' reforms such as the promotion of temporary employment and flexibilization of labor laws. After the financial crisis in 1995, which was characterized by a high level of speculation which was deeply rooted in the fixed-exchange rate between the Peso and the US\$, unemployment reaches today 18%-20%, 50% if one includes the informal economy, he stated. Cortina stressed the social costs of the Argentine crisis - high unemployment led to an increase in kidnapping, drug trafficking, prostitution and other social problems.

Apecides Alviz from Colombia outlined the reforms of labor market institutions in Colombia, which consisted in flexibilizing labor market institutions and reducing wages. He criticized the fact that the latest reforms affect the poorest workers and do not lead to creating new jobs. These policies were accompanied by reforms in the pension systems for which the IMF had called, as well as freezing wages in the public sector and fiscal adjustments. He concluded that the Colombian trade union organizations might mobilize the population on the streets if the new fiscal adjustment ignores the social challenges.

The open and final discussion between trade union participants and the World Bank staff from various regions and sectors focused on the future involvement of the World Bank in labor market policy and reform. World Bank staff pointed out that promoting the importance of labor market reforms and developing a constructive dialogue with local trade unions and international union organizations are crucial but difficult tasks. Internally, WB representatives managing social protection and labor market issues have promoted greater trade union consultation both internally to other staff and with government clients.

Gordon Betcherman concluded that in response to the recommendations from Mr. Wolfensohn and the senior management of the IFC, as well as in response to the dialogue with the unions, the World Bank has made a commitment to the following initiatives:

- The World Bank will focus in the years to come on a project to increase its understanding on the relationship between core labor standards, job creation, and poverty reduction in low-income countries in Sub-Saharan Africa. The unions will be involved in this project, as well as other stakeholders such as local ministry staff, research institutions, and the ILO.
- The International Financial Institutions (IFIs) will try to improve their monitoring of the situation of labor market reforms and see where unions are/are not satisfied with their involvement in the consultation process.
- The World Bank will continue to seek opportunities for staff exchanges (secondments) with representatives from unions to the World Bank.
- Following on from Lawrence Egulu's work on trade union participation in PRSPs, with Bank will seek ways to continue to monitor and build capacity of unions to be meaningfully engaged in PRSPs.
- The World Bank and the Social Protection unit in particular, will pursue efforts to develop a labor market strategy, including widening institutional knowledge of job creation in economically and sustainable ways such as consultations with the union movements.

The unions, while expressing their positive reactions to these commitments by the WB added a number of concerns that they wish the WB to address:

- Trade unions often encounter a wide gap between policy directives of the WB, insofar as labor-related matters are concerned, and what actually occurs at the country level. In light of this, the WB should put in place a system for monitoring Bank staff's involvement in labor market reforms on the national level.
- It is imperative that unions be part of national processes of labour market reforms, and changes to labor regulations must be accompanied by improvements in social safety nets.
- WB and IMF staff frequently pressure countries to introduce decentralization of collective bargaining, even though the Bank's own research evidence has proven that there is no correlation between decentralized bargaining and development outcomes.
- The intention of the IFC to introduce core labor standards as lending conditions is a welcome development but other divisions of the World Bank Group could do more to promote observance of CLS within their purview as provided by current policy, such as the inclusion of assessments on observance of CLS in all IDA CAS.
- The trade union organizations would like to participate in the development of the World Bank's Labor Market Strategy, including commenting on drafts and meeting for further discussions.
- Trade unions requested that research should be done on the link between deregulation of the economy and changes in employment and labor conditions.

- Trade unions are very interested in becoming more involved in the PRSP-process and underline the need for resources to be made available in the PRSP countries so as to allow for more effective participation of unions.

The closing session and open discussion summarized the proceedings of the three-day meeting and reiterated the importance of continuing dialogue among IFIs, trade unions, and other country-level stakeholders.