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Financial Services Committee on
"The Fight Against Global Poverty and Inequality:
The World Bank's Approach to Core Labor Standards and Employment Creation"

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Mr. Chairman, members of the Committee, I thank you for the opportunity to speak to you today about the World Bank's approach to core labor standards and employment creation, on behalf of the ten million working men and women of the AFL-CIO.

We believe that the fight against global poverty and inequality must include as an integral element the promotion of decent work, as the International Labor Organization (ILO) has defined it. Decent work "involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives, and equality of opportunity and treatment for all women and men." The protection of workers' human rights, as outlined in the ILO Declaration on Fundamental Principles and Rights at Work, is an essential ingredient in building strong democracies, distributing the benefits of globalization more broadly, and ultimately creating the kind of world we all want to live in.

Nobel laureate Joseph Stiglitz, former chief economist at the World Bank, correctly contends that "workers have to be at the center of the development transformation, and workers' organizations can be a key institution in the development process."

Research shows that observing fundamental workers' rights is good for growth, not an obstacle, and that strong democratic institutions smooth economic transitions and aid in crisis management. Protecting workers' rights contributes to development by building popular institutions, decreasing inequality, and encouraging political participation. Labor organizations can bridge ethnic and religious differences in the workplace and push for greater public and private investment in education, training, and economic growth. Underestimating the role of unions in development ignores the history of the wealthiest countries, where unions proved critical to democratization and the growth of a middle class.

Labor is one of the few assets that the poor have around the world. Creating job opportunities for the poor that provide them with productive and dignified work is necessary to stimulate broad-based growth and reduce poverty. The first Millennium Development Goal – halving extreme poverty – cannot be achieved on a sustainable basis without more and better jobs for the poor.

Policies to eliminate child labor often go hand in hand with policies to increase school enrollment. Achieving the Millennium Development Goal of universal primary education requires an effective strategy for moving the 200 million children under the age of 14 that go to work every day around the world into the classroom.

The workplace can be a powerful site for health care and health education for the poor. Labor unions in Africa have played an important role in advocating for and implementing highly effective HIV/AIDS education and treatment programs based in the workplace.

The World Bank

The World Bank describes its mission as "global poverty reduction and the improvement of living standards." In order to achieve these goals, it "provides low-interest loans, interest-free credit and grants to developing countries for education, health, infrastructure, communications and many other purposes."

In recent years, the Bank has made some important progress in incorporating core labor standards into its own operations, especially through the loan conditions imposed by the Bank's private-sector lending arm, the International Finance Corporation (IFC). The Bank also published an important book by Aidt and Tzannatos on the role of unions and collective bargaining in the development process in 2002.

We applaud the steps taken by the Bank so far to recognize and honor the core labor standards. However, we are deeply troubled by conflicting messages from different divisions within the Bank, as well as by the Bank's failure to recognize the important connections between its work to combat poverty and inequality and the work of the ILO to protect the rights of workers. We have long called for our key international institutions – the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), and the ILO -- to work together to achieve genuine policy coherence through cooperation at the country level, through sharing of data and expertise, and through incorporating common principles and values into every aspect of work.

Peter Bakvis, who represents the International Trade Union Confederation (ITUC) here in Washington, has laid out the ITUC's concerns and experience with respect to internal coherence at the World Bank. The AFL-CIO shares the ITUC's concerns and concurs with the ITUC's policy recommendations with respect to the Bank. I would like to focus my testimony today on the policy coherence – or lack thereof – between the World Bank and the ILO, particularly with respect to the annual Doing Business report.

The ILO is unique among United Nation agencies, in that it is a tripartite organization, with representatives from governments, employers, and workers from all of its member countries. In 1998, the three ILO constituencies reached a remarkable consensus on the core workers' rights that every worker in the world is entitled to: freedom of association and the right to bargain collectively, and prohibitions on child labor, forced labor, and discrimination in employment. Every member of the ILO committed to "respect, promote, and realize" these principles, regardless of whether it had ratified the underlying conventions. These core conventions are considered a minimum floor. No intergovernmental institution should undermine the principles reached via tripartite negotiation and consensus at the ILO.

However, the Bank has not consistently upheld the core labor standards in its country-level conditionalities, its public statements, and its work with individual countries. The World Bank's "structural adjustment" conditions have invariably emphasized labor market "flexibility," deregulation, and privatization, without concern for the likely impact on workers. A typical World Bank project description includes the following "labor market reforms": "(i) making the hiring of contract labor more flexible; (ii) decentralizing implementation of labor regulations; (iii) streamlining and simplifying compliance of labor regulations; and (iv) liberalization of working hours for women and small shops."[1]

Since 2004, the most glaring example of the Bank's inconsistency with respect to the core labor standards has been its annual "flagship" volume, entitled *Doing Business*.

Doing Business provides criteria that are in principle supposed to rank countries' "ease of doing business," measured by ten separate indicators. Unions, NGOs, and academics have criticized *Doing Business* as a one-sided publication, focused almost exclusively on a narrow "private investor" perspective, with little regard for social impact. *Doing Business* also relies on misleading use of research and empirical evidence, ignoring research findings by World Bank staff that do not support the "investor" lens of the report and mischaracterizing the findings of other academic reports.

Doing Business is an international disgrace. It classifies most protections for workers as investment impediments. It ranks human-rights abusers as stars, and downgrades democratic countries with strong labor institutions and protections. Contrary to the protestations from World Bank officials, *Doing Business* is not simply a neutral set of indices, but rather a powerful policy document, used to determine loan eligibility and to send a message, both to governments and to investors, about "desirable" regulatory reforms.

Doing Business is frequently cited in IMF Article IV consultation reports, as well as in World Bank Country Assistance or Country Partnership Strategies. TheWorld Bank also uses the *Doing Business* "labor market rigidity" scores in calculating its Country Policy and Institutional Assessment (CPIA), which is used to determine levels of aid or credit, debt ceilings, and the content of policy conditionalities. The CPIA is also used to determine aid allocation formulas by the Asian Development Bank and bilateral development agencies of several European countries. This is clearly a powerful policy document, not just incidental reading material.

The ITUC has documented 23 cases where the *Doing Business* report was used by the World Bank and IMF to push for labor market deregulation, in some cases backed up by loan conditions. World Bank officials have claimed that critics of *Doing Business* have "misinterpreted" the data. As the ITUC reports says, "Unless one is to surmise that hundreds of IFI staff members are systematically and deliberately 'misinterpreting' the Bank's highest circulation publication, it is not credible that the Bank never intended that *Doing Business* be

[1] World Bank, "The World Bank and the Social Dimension of Globalization," April 30, 2007.

used for that purpose, as those responsible for the publication have told trade union representatives."[2]

But perhaps most problematic, *Doing Business* undermines the World Bank's own stated goals, and puts the World Bank at odds with other international institutions, namely the ILO and other UN agencies.

For example, the World Bank has endorsed Millennium Development Goal number one, which is to eliminate extreme poverty. Yet *Doing Business* penalizes countries that have a statutory minimum wage, unless it is less than 25 percent of value-added per worker. This comes to less than $1 a day in most sub-Saharan African countries, which is the threshold for extreme poverty. So in this case, the World Bank is actually instructing countries NOT to implement minimum-wage provisions that would keep full-time workers out of extreme poverty, and is undermining an objective that the World Bank declared to be its overarching goal in 1999.[3] While the authors of *Doing Business* justify the penalizing of countries with a decent minimum wage on the grounds that eliminating or reducing the minimum wage will create more employment, this rationale ignores empirical evidence that higher minimum wages have offsetting employment benefits (with respect to productivity, turnover, and morale).[4]

In fact, if one were to use the *Doing Business* indices to construct a "perfect score" with respect to the "Employing Workers" index, the highest possible score would go to a country that had the following labor market features:

- ✓ Employers pay *zero contributions* for payroll tax, retirement, unemployment, maternity, invalidity, housing and health insurance.
- ✓ Short-term contracts can be used for more than 5 years for any category of work.
- ✓ Starting minimum wage is less than a quarter of average value-added per worker.
- ✓ There is no designated day of rest for any categories of workers, no more than 1 and a half day of rest per week is required, and the workweek (including overtime) can be more than 50 hours for 2 months a year. Night work is unrestricted, and annual vacation amounts to less than 21 days.
- ✓ Termination of employment for individuals and groups of employees alike can be carried out without previous notice to a third party and to the worker, without providing justification, and without the approval of any regulatory institution.

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[2] ITUC, ibid, p. 16.
[3] International Trade Union Confederation/Global Unions, "The IFIs' Use of D*oing Business* to Eliminate Workers' Protection: Analysis of *Doing Business 2008* and new country evidence," September 26, 2007.
[4] See, for example, D. Card and A. Krueger (1995) *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, New Jersey: Princeton University Press.

While the ILO has expressed concern to the World Bank about *Doing Business*, and has provided extensive documentation of problems with the report, there is little evidence of ILO input incorporated into the publication. The ILO and the World Bank have agreed to do intensive joint work in a limited number of countries, but ILO and World Bank country staff should be cooperating and sharing information across the board. It has often been our experience that World Bank country-level staff have no contact with ILO staff and no familiarity with ILO priorities or concerns.

While regular "Policy Coherence Initiative" meetings have been taking place for the last several years between World Bank, IMF, and ILO representatives, World Bank participation has been of varying levels of commitment, the agendas have often been limited to narrow or peripheral topics, and there has been limited follow-through with respect to the Bank's policy recommendations. These policy coherence meetings need to be accorded higher priority within the Bank, and staff need to be empowered to follow through with meaningful actions.

American workers have a strong interest in fighting poverty around the world and strengthening protections for workers' rights globally. In a dynamic and competitive global economy, our members are in competition with vulnerable and disenfranchised workers whose rights are not protected. At the same time, workers in developing countries who earn a decent living and have a strong and independent voice in a democratic system can potentially grow into a middle-class market for goods and services that we produce.

It makes a difference to American workers if our international institutions see their mission as fighting poverty by empowering and protecting workers, or as weakening worker protections in a misguided attempt to stimulate private investment and growth. We hope that the Congress and the Administration will ensure that the U.S. Executive Director to the World Bank conveys in the strongest possible terms that the World Bank must live up to its mandate, cooperate with its sister international organizations (particularly the ILO), and respect the international tripartite consensus that sustainable economic development can only be achieved if workers' human rights are respected. A first step should be eliminating the "Employing Workers" index from the *Doing Business* report, and reviewing the entire publication with a broader social perspective.

Thank you for your time, and I look forward to your questions.