

Meeting report

"Policy Dialogue between the International Labour Organization and the International Financial Institutions: The Search for Convergence"

Presentation / Discussion of a Study by Katherine A. Hagen
14 November 2003, Geneva

The study "Policy Dialogue between the International Labour Organization and the International Financial Institutions: The Search for Convergence" (FES Occasional Papers No. 9) by Katherine Hagen was presented by the author on 14 November 2003 in Geneva to some 20 representatives of the World Bank, the ILO, international trade unions and diplomatic missions.

Synopsis: The paper covers the past 15-20 years of policy dialogue between the ILO and the international financial institutions (IFIs). It shows how the dialogue evolved in the key issue areas of employment promotion, active labour market policies, core labour standards, social protection and privatization policies (issues that have played a role in the debate over the linkages between the ILO and the WTO as well) and highlights the impact of the Social Summit and the Asian financial crisis.

The policy dialogue with the Bretton Wood institutions was initiated by the ILO, because the IMF and the World Bank - in the context of their structural adjustment programs - began to advance policy positions quite contrary to the ILO's position on labour law, labour standards and social protection.

Throughout the years, the dialogue between the ILO and the IMF was to a large degree influenced by the personal relations between the respective directors general. As a former Belgian labour minister Michel Hansenne had close political rapport with Michel Camdessus, the IMF's managing director from 1987-2000.

Besides these personal relations the Copenhagen Summit for Social Development - convened in 1995 - turned out to be a milestone in the policy dialogue. The Summit, focusing on the topics of poverty eradication, social inclusion and employment creation, entailed a discussion about how to improve in the area of structural adjustment. On the basis of the IMF's understanding that social issues were not part of its own mandate but that it should help implementing measures to mitigate the costs of adjustment, a direct cooperation was established between the ILO and the Fund. As for the dialogue with the World Bank, it was only through the follow-up to the Social Summit that a basis for potential convergence on employment promotion policies was opened up. The ILO and the Bank both held the view that only by boosting formal employment other more informal employment opportunities could be improved.

In the aftermath of the Asian financial crisis 1997/98 the IFIs finally recognized the importance of social issues for economic development and financial

stability. Both institutions began to integrate employment creating strategies and participatory processes into their structural adjustment programs. But even though significant signs of policy convergence could be witnessed and a constructive dialogue evolved, the issue of employment and active labour market policies continues to be a source for differences between the ILO and the Bretton Wood institutions.

More recently, due to a growing concern about the impact of globalization and trade liberalization on developing countries, the dialogue shifted towards the WTO and trade-related issues. The challenge for the ILO now is to connect to this dialogue between WTO, IMF and World Bank. There is, however, an enduring impasse on the linkage between trade and labour standards. The idea of incorporating international labour standards into the WTO's system of governance is strongly opposed by the developing country members of the ILO, who fear that the labour standards could be used against them for protectionist purposes. The author here identifies a positive, incentives-instead of a sanctions-based approach as the way to go and refers to the EU's integration of core labour standards into its GSP (= generalized system of preferences) program and its development policies.

Overall, the paper comes to the conclusion that the dialogue will have to move beyond the search for policy convergence to a partnering for policy coherence on trade, development and social justice. This, however, will not be possible without the commitment to coherence from the institutions' respective members.

In the following discussion of the study it was remarked by *R. van der Hoeven* (ILO) that we may nowadays witness greater policy coherence on goals - the main policy goal definitely being poverty reduction - but that differences remain with respect to the instruments and strategies most appropriate for attaining them. Whereas the ILO seeks to promote employment, the IFIs are trying to cultivate economic growth. Moreover, since the discussion moved from a technocratic to a more public one, the institutions will have to make their policy debates more accountable to the public and integrate civil society in the dialogue. Finally, Mr. van der Hoeven stressed that in his opinion labour standards can only be promoted through development aid; a sanctions-based approach will not be conducive to resolve the problem.

J. Ingram (World Bank) annotated that while the focus of the paper is on the Bretton Wood institutions, there has been an evolution on the part of the ILO as well. Referring to the structural adjustment programs in Burkina Faso and Senegal, he accounted that in the negotiations of a labour code reform in Senegal 1989 the local ILO representatives, in opposition to the World Bank, did not support a change to more flexible labour markets, preferring to protect the existing jobs of workers in the public sector at the expense of creating new ones. (It was later pointed out by some participants, that the ILO itself disagreed with the trade unions' resistance to reform in West Africa). According to Mr. Ingram, the creation of employment is mainly in the scope of duties of governments; they - rather than the international institutions - are determining the instruments depending on their respective needs.

PRSPs (=Poverty Reduction Strategy Papers) might be comprehensive tools to promote development, but they are owned by local entities and not supported by the Bank. Concluding, he indicated that the Bank's attitude towards social issues has changed depending on the Bank's Chief Economist. Whereas J. Stiglitz concentrated mainly on market failures and N. Stern was concerned with institutions and governance-related issues, F. Bourguignon is focused on the distributional impact of adjustment.

Adding on to this account, *S. Taylor* recalled that during the 90s there was a major ILO initiative on labour law reform in West Africa seeking to involve all groups in the negotiations to develop sustainable reforms. In his opinion, a country's willingness to accept reform was thereby largely influenced by the extent of its dependence on IDA (= International Development Association) assistance.

W. Sengenberger pointed out, that whereas the study's focus is mainly on horizontal operations, it is equally important to consider the issues from a vertical point of view, that is, from the different perspectives existing within the hierarchies of the organizations themselves. He also called attention to the problem that the absence of income protection in developing countries is preventing them from being supportive of social protection policies; the trade unions are only insisting on employment protection because they have no alternative.

L. Kohler (ILO) followed, stressing that instead of a historical perspective a forward looking one is needed. He called the inter-institutional dialogue of today a "policy dialogue of the deaf", being ideological instead of constructive and focusing on obstacles instead of trying to identify opportunities for cooperation, which could, for instance, be found in the area of technical assistance and capacity building. He concluded that the asymmetries in resources of the institutions in question (the IFIs having a larger resource base than the ILO) are problematic and that social issues are orphans when it comes to the multilateral economic institutions.

A. Trebilcock (ILO) then stated that the movement of collective bargaining away from centralized national structures - the Bank focusing on collective bargaining at the enterprise level - has tended to destroy social capital.

The WTO representative at this meeting, *H.- P. Werner*, underlined that there is virtually no dialogue between the WTO and the ILO, - despite the fact that many people would like to have social issues on the WTO's agenda. The problem, though, is rather on the national than the international level.

Summing up, *K. Hagen* observed that much will depend on the way in which the current crisis in the WTO is resolved. Policy coherence, however, can only be brought about via the national level, since these international institutions are member-driven.

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