BEARING the BURDEN

The Impact of Global Financial Crisis on Workers

and

Alternative Agendas for the IMF and Other Institutions

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Introduction

In the aftermath of the global financial crisis that exploded in July 1997, tens of millions of workers lost their jobs around the world. Hundreds of millions watched their real wages fall. Millions of immigrant workers were sent home. The ripple effects were felt by workers in every country. Meanwhile, those most responsible for causing the crisis suffered little of the pain. As former World Bank Chief Economist Joseph Stiglitz, put it,

> *"in East Asia, it was reckless lending by international banks and other financial institutions combined with reckless borrowing by domestic financial institutions—combined with fickle investor expectations—which may have precipitated the crises; but the costs—in terms of soaring unemployment and plummeting wages—were borne by workers. Workers were asked to listen to sermons about "bearing pain" just a short while after hearing, from the same preachers, sermons about how globalization and opening up capital markets would bring them unprecedented growth."*[1]

By the end of 1999, most of the crisis countries were showing signs of recovery in terms of their economic growth rates. But while international investors celebrated, working families in these countries saw little improvement in their own lives. A World Bank study released in January 2000 reveals that incomes of the low and middle class in East Asia have not been restored. Urban poverty has risen, as laid-off industrial workers struggle to survive with little or no social safety nets. In many countries, displaced workers have returned to rural villages, where they try to eke out a living on small family plots.[2]

Perhaps even more disturbing than the lingering effects of the financial crises of the last half decade is the fact that little has been done to prevent such tragedies in the future. Although the crisis did provoke a vigorous debate around a "new global financial architecture," no clear and comprehensive vision has emerged from official policymakers. Moreover, even though workers bore the brunt of the last crises, their representatives are not among those at most tables where the new financial architecture is being debated and drawn. Hence, it should come as little surprise that official proposals for change either ignore workers' interests or undermine them.

This said, there are well-developed proposals for new rules and institutions that would serve workers' interests.[3] In addition, it is widely recognized that the massive demonstrations against the World Trade Organization by the international labor movement and others in Seattle in December 1999 have opened up new opportunities for promoting a labor and social agenda within all the international financial institutions. There remains, however, a major challenge to educate and mobilize people on this issue in order to raise the profile of workers' concerns in both the public and the official debates.

This paper attempts to bring alive the impact of the financial crisis on working people. It outlines the mechanisms by which the crisis has hurt workers. It then offers an analysis of the impact of the crisis on workers in eight countries: Korea, Indonesia, Thailand, the Philippines, Russia, Brazil, Ecuador, and, finally, the United States. A final section outlines the official debate on resolving the crisis as well as components of an emerging North-South citizens agenda on the global financial crisis that advances the interests of workers.

I. The Overall Impact of the Global Financial Crisis on Workers

A. The Crisis

Today international financial markets resemble a global casino where traders gamble in split-second trades on market fluctuations. In 1980, the daily average of foreign exchange trading was $80 billion; today, more than $1.5 trillion flows daily across international borders. Over nine-tenths of capital flows are speculative, rather than productive in nature.

The global financial casino is the conscious creation of public policy. Over this past decade, the World Bank, the IMF, and the U.S. Treasury expanded their focus on free trade to press governments around the globe to open their stock markets and financial markets to short-term international investments.[4] The resulting quick injections of capital from mutual funds, pension funds, and other sources propelled short-term growth in the 1990s, but they also encouraged bad lending and bad investing. According to the World Bank, the amount of private financial flows entering poorer nations skyrocketed from $44 billion in 1990 to $256 billion in 1997. Roughly half of this was long-term direct investment, but most of the rest—as recipient countries were soon to discover—was footloose, moving from country to country at the tap of a computer keyboard.

When international investors got spooked in Thailand, Indonesia, and several other countries in mid-1997, the "hot money" panicked and left much faster than it had arrived. Big-time currency speculators like George Soros deepened the crisis by betting against the currencies of the crisis nations. IMF policy advice seemed only to quicken the exodus. Currencies and stock markets from Korea to Brazil nose-dived, and as these nations slashed purchases of everything from oil to wheat, prices of these products likewise plummeted. As the financial crises have spread to the productive economies of Indonesia, Russia, and several other countries, there has been widespread pain, dislocation, death, and environmental ruin. According to U.S. President Bill Clinton, "the world faces perhaps its most serious financial crisis in half a century."

B. The Impact on Workers in Crisis Countries

The impact of the financial crisis on workers is often swift and direct. In crisis countries, the chain reaction of economic events typically has started with a plunge in the currency and stock market as investors flee. Desperate to regain investor confidence and to get emergency funds, countries turn to the International Monetary Fund or the World Bank or both to get a "seal of approval" and a quick loan. Before new funds are disbursed, the Bank and Fund demand certain "structural adjustment" reforms. These invariably hurt workers through any of seven effects:[5]

1. Hiking Interest Rates

Countries are encouraged to raise interest rates to strengthen the currency and to attract back the foreign investment. Yet higher interest rates cripple domestic business, which must repay debts at higher rates, as well as workers who have borrowed funds. In Mexico, Brazil, and elsewhere, thousands of small enterprises have gone bankrupt, adding millions to the ranks of the unemployed. Furthermore, sky-high interest rates discourage new borrowing, which reduces investment and makes an economic downturn even more severe.

2. Massive Public Sector Layoffs

Bank and Fund policies in poor countries can be summed up in four words: "Spend less, export more." As governments cut expenditures, civil service downsizing is often one of the first targets.

3. Spending Cuts in Basic Social Services

In addition to public sector layoffs, governments have been pressed by adjustment loans to cut basic social services. As education, health care, and other social program budgets are cut, not only are jobs lost directly but the future health and productivity of the workforce are undermined.

4. Crippling Wage Freezes and Labor Suppression

The Bank and Fund also press countries to slow or stop the rise in wages, both to attract foreign investment and to repress demand. In some countries, the lending programs have also undercut workers by promoting so-called "labor market flexibility" measures. These can include making it easier for firms to fire workers and weakening the capacity of unions to negotiate on behalf of their members. Meanwhile, the IMF and World Bank refuse to actively promote enforcement of international core labor standards. In a letter to American University Professor Jerome Levinson, Joanne Salop, World Bank Vice President for Operations Policy and Strategy, explained that "with respect to freedom of association and the right to collective bargaining, the Bank is in the process of analyzing the economic effects in order to form an informed opinion."[6]

5. Devaluation of Local Currencies

One of the prominent reasons why workers face rising prices in adjusting countries is the common policy prescription that countries should devalue their currency. Devaluations have the effect of making a country's exports cheaper and its imports more expensive. Workers' wages, in local currency, buy fewer imported goods. In addition, more of their tax money is required to meet interest payments on foreign debt that is denominated in foreign currency.

6. Promotion of Export-Oriented Production

The Bank and Fund pursue a series of policies in addition to devaluation to encourage countries to shift more land from basic food crops to export-oriented production of shrimp, broccoli, cut flowers, coffee and dozens of other products. In addition to hastening ecological decline (shrimp farmers can ruin the water table; the cash crops often rely on more chemical inputs), this shift has often been accompanied by rising malnutrition as basic food prices rise and millions of peasants and indigenous people are displaced from their land. The World Bank has also been a big promoter of "free trade zones" where young women often work in exploitative conditions to produce light manufactured goods for export to Wal-Mart, Sears, K-Mart and other outlets. While a small elite gains from these new export ventures, the rising inequalities between the winners and the workers creates new tensions and instabilities.

7. Abolition of Price Controls on Basic Necessities

A favorite target of IMF and World Bank policies is the low prices on basic necessities that governments often subsidize in urban areas. The elimination of these subsidies can be devastating and in several countries, has led to riots and bloodshed.

In sum, in their zeal to correct macroeconomic imbalances and speed the generation of foreign exchange to repay creditors in the rich countries, the IMF and World Bank have visited enormous suffering on the workers of the poorer two-thirds of the world.

C. What Types of Workers are Hardest Hit?

We outline the impacts of the crisis on workers by country in a subsequent section. Across countries, two groups of workers have been particularly hard hit: women and immigrants.

1. Migrant workers:

The crisis exacerbated the already vulnerable position of migrant workers, who often become scapegoats for surging unemployment. To demonstrate their concern for their own citi-

zens, governments in many countries cracked down on immigrants. Singapore sent home Malaysians; Malaysia sent home Thais and Indonesians, and Thailand sent home Burmese.[7] The Hong Kong government cut the minimum wage for migrant domestic workers, a move that primarily affects the 100,000 Filipina maids in the country. In Argentina, former President Carlos Menem introduced bills to Congress to stem the flow of illegal immigration from neighboring countries. The new laws would fine individuals or companies up to $500,000 if caught hiring undocumented workers.[8]

2. Women workers:

The gender dimensions of the crisis are complex and vary by region. However, there are several indicators pointing to a disproportionate burden for women:

• An ILO report released in April 1998 charged Asian employers with unjustly firing women workers and claimed that women were less likely than men to get severance pay upon dismissal.

• The ILO paper also claims that in Thailand, female undocumented foreign workers were more likely than men to be arrested and repatriated.[9]

• In some cases, women clearly bore the brunt of layoffs. In Korea, for example, employment between April 1997 and April 1998 declined by 3.8 percent among men, but by 7.1 percent among women.[10] Jayati Ghosh, an economist at Jawaharlal Nehru University in New Delhi, has documented that women workers in Korea and Thailand have been most affected by mass layoffs in the textile, computer-related and consumer electronics industries—all sectors that primarily employ women. In Thailand, women workers in low-tech labor intensive export industries like low-end garments, furniture and low-end plastics were the first to be laid off, Ghosh says. In Indonesia as well, large numbers of women previously employed in export industries have lost their jobs.[11]

In some of the crisis countries, men make up a greater share of the official overall unemployed. However, there is some reason to suspect that this may be because unemployment rates for women are underestimated. Moreover, some studies have shown that women who are laid off are often quickly rehired, but at lower wages.[12]

According to the World Bank, many women who previously did only unpaid family work sought employment in the informal sector, including prostitution, in order to survive the crisis. An Indonesian foundation stated that in 1998, 50 to 100 women per month were taking up work in red light districts of Jakarta, compared to 20 per month in 1997.[13]

According to Lisa McGowan, of the AFL-CIO's Solidarity Center, the fact that women have suffered disproportionately as a result of the crisis is not surprising: "Part of the structure of the global economy is that you have zones of discrimination. When crisis hits, this becomes hyper-discrimination. And long after the international financial community declares that a crisis is 'solved,' the problems of racism and sexism will remain."[14]

D. Boomerang Effect on U.S. Workers

As workers in the global South suffer, the same World Bank and IMF policies have boomerang effects on U.S. workers. By pressing Southern countries to export their way out of crisis with depressed wages, the Bank and Fund increased low-cost exports to the United States. Likewise, World Bank and IMF policy-based lending have a negative impact on U.S. exports and hence, U.S. jobs, in several ways:

1. Many of the loans prescribe currency devaluations which have the effect of making imports of U.S. and other products more expensive;

2. The loans prescribe cuts in government spending which eliminate government jobs and hence cut purchasing power;

3. Many of the loans push for the elimination of government subsidies on the prices of locally produced basic necessities, which decreases the income people have to spend on U.S. goods; and

4. Many of the loans prescribe a privatization agenda, which in most developing countries has cost jobs, which again cuts the purchasing power of people to buy U.S. goods.

The World Bank and IMF structural adjustment programs also destroy U.S. jobs by promoting policies that encourage U.S. firms to shift production offshore. Many of the loans are conditioned on the creation of export processing zones, which provide cheap labor and a liberal regulatory environment to attract foreign investors.

II. Impacts on Workers by Country

The current global financial crisis began in Asia in 1997, spread to Russia in 1998 and engulfed much of Latin America by 1999. This section profiles impacts on workers and some of their responses in the four Asian nations that received quick new IMF programs, three Latin American nations, Russia and the United States.

A. Asia Region

1. KOREA

Employment

According to the World Bank, official Korean unemployment rose during the first year after the crisis from 2 to 7.5 percent, and peaked at 9 percent in early 1999. Although the country achieved a remarkable expansion in 1999, growing by more than 10 percent, unemployment only declined to around 6.5 percent. The Bank has stated that this level is still "unacceptably high," particularly since most of the displaced are uninsured.[15]

The LG Economic Research Institute argues that the nation's real unemployment rate is actually higher than official data indicate, because so many people are working for their family businesses without salary.[16] Another trend has been for employers to lay off workers and then rehire them as "temporary" or "casual" workers at 60 to 70 percent of their previous wage and with no union rights or unemployment benefits. According to Human Rights Watch, between early 1997 and February 1998, casual workers increased by 8.7 percent and day-hires by 5.2 percent, while full-time workers fell by 3.3 percent.[17]

In response to reports of gender discrimination in layoffs, the Labor Ministry established a task force on equal employment in November 1998 charged with conducting spot checks at companies to prevent them from targeting female workers during their restructuring.[18] The Korea Labor Institute had reported in August 1998 that the number of female office workers had plummeted 22.8 percent compared to the previous year, while women working in the manufacturing sector decreased by 17.7 percent during that period.[19]

Like most of the other crisis countries, Korea took steps in the aftermath of the crisis to reduce immigration. In May 1998, the Korean government stopped allowing the entry of foreign workers. Although the government had also planned a mass deportation of undocumented workers, this became less urgent when many foreign workers fled voluntarily. The Ministry of Justice reported that between the

end of 1997 and April 1998, 36 percent of undocumented foreign workers left the country.[20]

Unemployment benefits

Korea's unemployment insurance program normally pays benefits only for two to five months.[21] In response to the crisis, the government launched a six-month program in July 1998 and in January 1999 announced a further six-month extension. The extension was expected to affect about 150,000 unemployed Koreans. In addition, the government announced that the minimum benefit would be raised from 50 percent to 70 percent of the minimum wage. For families that cannot get by on unemployment benefits, the government allows increased social welfare assistance.[22] President Kim Dae Jung's government also put about 300,000 day laborers to work on public works projects in the aftermath of the crisis.[23]

Korea is the only Asia crisis nation that offers unemployment benefits. Coverage has applied only to firms with at least 10 workers, although this is being extended, in stages, to firms with at least five workers. However, while this safety net is more than what most Asians enjoy, many Koreans who are eligible for unemployment benefits decline to accept them because of a strong social stigma against accepting handouts.[24]

Wages

During the first year of the crisis, the World Bank estimates Korean real wages dropped 0.4 percent (compared to a 7.3 percent rise during the year prior to the crisis).[25] By the third quarter of 1998, monthly average real wages had dropped 14 percent to 1.2 million won (about US$950).[26] Many companies were cutting salaries by as much as 30 percent.[27] Even unionized workers accepted a wage cut averaging 3 percent.[28] Workers were not only earning less but working more. Average work hours of salaried employees increased by 0.85 hours to 202.6 hours a month.[29]

One indication of the economic strain was the drop in consumer spending. The Bank of Korea reported that consumer spending took the steepest drop during the first three quarters of 1998 in Korean history. Spending dropped by an annual rate of 12 percent, compared with a 4 percent increase for the same period in 1997. Purchases of durable goods, such as home appliances and automobiles, plunged 44 percent.[30]

While Korea's economic growth rate increased 10 percent in 1999, regular (non-overtime) wages grew by less than 4 percent. As of this writing, unions, employers and the government were locked in tense negotiations over pay increases for the upcoming year. Unions were demanding increases of more than 10 percent to make up for their losses after the crisis. Some analysts questioned whether the unions had the leverage to achieve a satisfactory outcome from the tripartite process, given that unemployment levels are still higher than during the pre-crisis period and many firms have increased their use of part-time and temporary workers.

Impact on Labor Laws and Unions

Although labor unions helped elect Korean President Kim Dae-Jung in late 1997, relations with his administration have been tense. In February 1998, the Korean National Assembly passed legislation which overturned laws that made it difficult to legally fire workers unless a company was bankrupt.[31] The new law allows companies to lay off workers when they face "emergency situations," such as financial trouble, mergers or acquisition. The legislation was one of the key demands of the IMF's $57 billion bailout package for Korea.

Labor leaders had threatened to launch a nationwide strike if the layoff bill was legislated, but the unions later backed down when the government offered a compromise plan that granted greater labor freedoms, such as the allowance of teachers' unions, and a requirement that corporate management must give 60 days notice before they dismiss workers and must rehire workers if business improves. Economic experts predicted that about a million

job losses would result from the bill.[32]

Relations between the government and labor unions have continued to be tense. In July 1998, 5,000 workers at a Hyundai auto factory took over the plant, demanding that the company drop its plan to lay off 2,000 workers. A solidarity strike in Seoul drew 100,000 people. In response, Dae Jung ordered the arrest of the president of the Korean Confederation of Free Trade Unions (KCFTU) and many other union officials. That same summer, in response to a strike by the Korean Metal Workers Federation (KMWF), 400 police arrived at the union's headquarters to arrest KMWF president Dan Byon-ho. Although he eluded police and took sanctuary in a cathedral, several other union leaders were arrested.[33]

Unions and other groups staged numerous mass rallies in Korea to demand that corporations and corrupt politicians, not workers, shoulder the burden for the crisis. On November 15, 1998, the FKTU organized a rally involving 50,000 workers. A resolution released at the rally included demands for better unemployment benefits, stricter enforcement of labor rights laws, and workers' participation in corporate management.[34] In February 1999, KCTU, which represents 550,000 workers, pulled out of the Tripartite Committee that involved labor, business, and government in a dialogue aimed at solving the country's labor problems. The KCTU complained that the government was not upholding promises to prevent unemployment and ensure union involvement in corporate restructuring plans.[35]

The strain on unions was reflected in a decline in unionization rates immediately following the crisis. The proportion of union workers in the labor force declined 1.1 percent to 12.2 percent in 1997, the lowest participation rate in 30 years. The number of union members decreased 7.2 percent to 1.5 million. The number of unions also fell, declining 10.8 percent. Publishing, shipping, textile and rubber industries recorded the largest reductions. The Labor Ministry attributed the decline to company failures and mergers, in addition to an 18 percent increase in part-time workers.[36]

2. INDONESIA

By most accounts, Indonesia has suffered the most of any nation from the crisis, followed by Russia. These are the world's fourth and fifth most populous nations, respectively.

Employment

The ILO estimates that the crisis wiped out one-fifth of non-farm jobs in Indonesia in 1998.[37] The World Bank estimates that unemployment grew from 4.9 to 13.8 percent during the year after the crisis began.[38] Among the East Asian crisis countries, it has been the slowest to show signs of recovery, posting an economic growth rate of only 0.5 percent in 1999.

One of the hardest-hit sectors is the banking sector. Under stiff pressure from the IMF, Indonesia shut down 16 of the most debt-ridden banks in the last quarter of 1997, which touched off a confidence crisis in the entire domestic banking system.[39] In December 1998, Indonesian authorities announced plans for the merger of four ailing state banks into a single bank. The merger was expected to result in the layoff of 15,000 to 17,000 of the banks' 25,000 staff.[40] Then on March 14, 1999, the government closed an additional 38 banks because they were deemed to be inadequately capitalized.[41]

Since Indonesia has no unemployment insurance, jobless workers throughout the country face desperate conditions. In the aftermath of the crisis, even those who were able to hold their jobs faced extreme difficulty in finding transportation to their jobs. Taxis raised fares and private bus operators in a number of cities demonstrated to demand that the government provide subsidies for spare parts and allow fare increases. Following the rupiah's nose-dive, prices of spare parts rose 300 percent in 1998 because many of them are imported. In Jakarta, 79 of the city's 690 public-transport routes had been halted as of October 1998. One private company had reduced its buses from 1,500 to 600.[42]

Wages

The World Bank estimates that real wages dropped 40 to 60 percent in the first year of the crisis, while the poverty rate skyrocketed.[43] According to the World Bank, Indonesia's poverty rate doubled between the onset of the crisis and mid-1998, when 20 percent of the population were below the poverty line.[44]

According to the ICFTU, the Indonesian minimum wage was worth 6.3 kilograms of rice in January 1997; by June 1998, it was worth only 2.6 kilograms.[45] In mid-February 1999, the Indonesian government announced that it would raise the basic minimum wage by an average of 16.1 percent (depending on the province) beginning April 1, 1999. However, the government allowed companies that could not afford the raise to apply for a postponement. Moreover, by the government's own admission, the higher wage level still covered only about 80 percent of a worker's basic needs. The minimum wage applies to full-time workers who have been employed by a company for less than a year.[46]

In the beginning stages of the crisis, the drop in wages was exacerbated by rising prices. Between August 1997 and January 1998, consumers experienced extreme increases in the cost of electricity (200 percent), milk (50 percent), rice (36 percent), and cooking oil (40 percent).[47] In response, students and other Indonesians rioted, demanding the removal of long-time ruler Suharto. After Suharto gave in to pressure to resign in May 1998, the IMF continued to pressure the Indonesian government to implement reductions in subsidies on food, fuel and electricity, although at a slower pace than Suharto had pursued. When protests continued, the IMF agreed in June 1998 to a revised reform plan that postponed austerity measures until the country's economy recovered.

Impact on Labor Laws and Unions

After a period of severe repression under Suharto, Indonesian independent labor unions dramatically increased their activity. Former President Suharto refused to recognize independent unions, used the military to squash labor unrest and jailed labor leaders. Although the government in 1994 authorized plant-level unions that theoretically could negotiate with their employers, these unions have typically colluded with management against the interests of workers.[48] One group, the Indonesian Prosperity Trade Union (SBSI), has struggled to develop a genuinely independent union movement in Indonesia. SBSI leader Muchtar Pakpahan was jailed for writing subversive speeches in 1995 and 1996.

After the fall of Suharto, one of the first actions of the new administration was to ratify the International Labor Organization's Convention 87 regarding the freedom of association. Stanley Fischer, First Deputy Managing Director of the IMF, claims that this came about as the result of the IMF intervening to press the post-Suharto government to adopt this core worker right.[49] This was a break with the IMF's traditional lack of support for labor rights, and it suggests that perhaps the true motive for this pressure may have been to create a force (in this case unions) that could help erode the power of the corporate crony system that flourished under the Suharto regime.

With the help of international pressure from the AFL-CIO and other groups, the post-Suharto government released Pakpahan in 1998. These events have helped create an explosion of organizing activity by SBSI, as well as by students and nongovernmental organizations. Since Pakpahan's release, SBSI has been active in organizing workers in a number of locations in the country. According to the AFL-CIO, about 80 SBSI unions had been recognized as of early 1999.[50]

3. THAILAND

Employment

The World Bank estimates that Thai unemployment rose from 1.5 to 10.9 percent during the first year of the crisis.[51] Total unemployment at the end of 1998 was estimated at four million

workers, or 15 percent of the workforce.[52] Underemployment, according to the ICFTU, rose to 1.5 million, or 4.6 percent of the labor force in 1998.[53]

According to the *Far Eastern Economic Review*, many poor urban Thai workers who lived at their factories or on construction sites had nowhere to go after they were laid off. The government reported in May 1998 that some 200,000 had returned to rural villages where work was also scarce. Many others who remained in urban areas entered the informal economy by selling food on the street, offering motorcycle transport or becoming involved in prostitution. Labor experts have criticized the government for providing measures to help big businesses, while more people are employed by small and medium-sized business.[54]

A study by the Thai Farmers' Bank in December 1997 predicted that layoffs in Thailand would hit construction workers hardest, with around 225,000 people (13.5 percent of the sector's workforce) expected to lose their jobs. The study predicted that the massive layoff would result in the gradual migration of construction workers to their home provinces to resume farming. As in Indonesia, Thailand's finance sector workers have been hard hit. The Thai government's plan to solve the banking sector's problems were expected to result in some 34,000 out of the 114,000 bank workers being laid off. Unionists demanded that the government come up with measures to cope with bank workers' unemployment.[55]

Another service sector industry facing a sharp drop in employment is the advertising industry, where about 10 percent of the workforce had lost their jobs as of May 1998. Local advertising agencies suffered when local corporate clients cut their advertising spending by over 40 percent.[56]

Unemployment benefits

Thailand currently provides no unemployment insurance. In September 1998, labor unions demonstrated to demand that such a safety net be created through early enforcement of a social security welfare program for retrenched workers. Thailand's Social Security Act, passed in 1990, began with a first phase to provide benefits for non-work related illnesses; maternity benefits; benefits for invalids and assistance with funeral expenses. Contributions from three sectors (employers, employees, and the government) finance the scheme.[57]

Unions argue that extending the program to laid off workers would require raising social security contributions from 1 percent to 2.5 percent of salaries in order to secure unemployment benefits. However, the Social Security Office claimed it was not capable of expanding the program to cover unemployed workers because of computer and other problems.[58] In addition, an economic adviser to Prime Minister Chuan Leekpai was quoted in the *Far Eastern Economic Review* as saying that "Thailand does not aspire to emulate the Western unemployment insurance scheme. Rather than handouts, the present administration prefers soft loans towards the establishment of small-scale business." The standard loan provided is worth about $235.[59]

Wages

The World Bank estimates that real wages dropped 10.3 percent in the first year of the crisis.[60] The ICFTU estimated that real income per earner dropped by 21 percent by the end of 1998.[61] As of January 2000, Thai media reported that some companies had started raising wages again, but that they still did not measure up to what they were before the economic meltdown.[62]

Migrant workers

In February 1998, Thai Prime Minister Chuan Leekpai announced that the country would expel more than one million undocumented workers by the end of 1999, with a target figure of 300,000 deportations by June 1998. In March 1998, Thai officials also announced new measures to discourage the hiring of illegal workers, including a requirement that migrant workers be paid the same wage as Thai workers.[63] According to Human Rights Watch,

Burmese migrants, who make up the majority of foreign workers in Thailand, earn about one-third of a Thai worker's wage for the same job. U Maung Maung, General Secretary of the Federation of Trade Unions of Burma, explains that Burmese have fled to Thailand in droves to escape forced labor and relocation, economic hardship, and civil war.

Unions

Although Thailand does not allow public sector workers to organize unions or to strike, private sector employees do have the right to unionize. However, unionization rates are very low, with only 2 percent of the total workforce and 11 percent of industrial workers unionized. One major factor in these low rates is that 50 percent of the workforce is in the agricultural sector.[64] Moreover, labor repression also persists. In the aftermath of the crisis, NGO's reported that companies were unfairly targeting labor leaders in their layoffs with the intention of destroying the unions.[65]

4. PHILIPPINES

Employment

According to the National Statistics Office, three million Filipino workers were without jobs as of October 1998, up from 2.3 million a year previous. The unemployment rate reached 9.6 percent, up from 7.6 percent the year earlier. The number of underemployed workers also increased, as Filipino workers, with no access to unemployment benefits, scrambled to get by. As of December 1999, the unemployment rate remained at about the same level as the peak of the crisis—about 9.4 percent. As in many countries, the Philippines' official unemployment rate gives an incomplete picture of joblessness. In this case, the government considers a person to be employed if they worked for at least one hour during the survey week.[66]

One survey indicated that manufacturing had had by far the most layoffs in the aftermath of the crisis, making up 61.6 percent of the country's total layoffs, followed by construction and the wholesale and retail trade, both making up around 10 percent.[67]

Whereas other countries focused on expelling migrant workers, for the Philippines, the primary concern in the crisis period was the loss of income from Filipinos employed overseas. The Philippine Overseas Employment Administration reported that in the first 10 months of 1998, deployment of overseas Filipino workers declined by 14.39 percent, from 747,696 in 1997 to only 640,054. Those who work as seamen or ship personnel were the most affected by the economic crunch, with their remittances dropping by 10.98 percent. Land-based workers remitted 1.91 percent less from January to July 1998 than in the same period in 1997.[68]

In February 1999, the government of Hong Kong cut the minimum pay for foreign maids by 5 percent. Filipino domestic helpers account for nearly 80 percent of the country's 180,000 foreign maids and most send a large portion of their wages back to family members in the Philippines.[69] In response to the wage cut, several Filipina domestic workers shocked Hong Kong officials by demonstrating outside the office of Hong Kong's Secretary for Education and Manpower.

Wages

The Manila-based Ibon Foundation calculates that the Philippine peso has lost 29 percent of its value in the past four years. Minimum wage workers earn enough to fulfill only 32 percent of food and nonfood requirements in one week.[70]

Impact on Labor laws and Unions

Under the strain of the crisis, unions in the Philippines worked to hammer out compromises with employers and the government while continuing to struggle to expand the number of Filipinos with union representation. For example, in January 1999, labor unions and companies in export processing zones signed an agreement to avoid layoffs and abstain from labor strikes for the following six

months to one year in an effort to survive the financial crisis. Management committed to exhausting all means to boost productivity and keep finances in order before resorting to job cutbacks. Labor, for its part, agreed to hold back any mass actions or temper demands for higher wages. This accord was based on a similar agreement adopted by employers outside the zones and their respective unions in 1998.[71] Democrito Mendoza, President of the Trade Union Congress of the Philippines (TUCP) said that the agreements would not ban work stoppages, but only "commits them to resort to strike sparingly."[72]

There are 107 export processing zones in the Philippines. During the years 1996 and 1997, the Trade Union Congress of the Philippines (TUCP) organized new unions in the zones as a rate of one per month. Despite the devastating impact of the economic crisis, TUCP still managed to organize eight additional unions in the zones during the first 10 months of 1998.[73]

Despite these gains, there is a risk that Filipino workers may experience diminished legal protections. In early 1999, the Philippine government formed a task force to amend the labor code and recommend "investment-friendly" labor policies. A source said the President's top priority was to expand exemptions to the minimum wage law. Trade Secretary Jose Pardo said that amending the labor code was the only way to attain the industrial peace demanded by prospective investors who are being counted on by the government to help lift the country out of the economic crisis.[74]

B. The Contagion Effect: Impact on Workers Outside the Asia Region

In a world of financial deregulation, crisis in one country can spread like wildfire across borders and even oceans. The Asian crisis that erupted in mid-1997 spread to other countries through three main channels:

- **Trade relations**

Faced with negative economic growth and weak currencies, the crisis countries are importing less, affecting the exports of countries around the world. For the United States, reduced exports to Asia contributed record trade deficits in 1998 and 1999. For Latin America, which does not rely heavily on Asian markets, the primary concern has been a drop in exports to Brazil.

- **Commodity prices**

A less direct, but equally serious effect is the impact of global financial crisis in depressing world commodity prices. This is particularly devastating for developing countries that remain dependent on raw materials exports. Between June 1997 and August 1998, oil prices dropped about 30 percent (affecting Ecuador, Mexico, Russia, and Venezuela, among others), coffee prices fell 43 percent (affecting Brazil and Colombia), and gold prices sank 17 percent (affecting Russia, South Africa).[75]

- **Investor panic**

The Asian crisis made investors nervous about emerging markets in general, preferring to shift their capital to developed economies that they considered safer. Investors were particularly spooked by countries that bore resemblance to the Asian crisis countries in terms of high budget deficits, such as Brazil. In response, governments have been forced to jack up interest rates as they in an attempt to put the brakes on capital flight. High interest rates in turn hurt locally owned businesses.

In the following section, we describe examples of countries that have been affected, to varying degrees, by these channels of contagion, and the diverse ways in which their governments have responded.

Latin America

In the aftermath of the Asian financial crisis and even more so after Russia defaulted in August 1998, Latin America suffered from an overall drop in investor confidence in emerging markets. Private lending to the region declined from $119 billion in 1997 to $77 billion in 1998 and many countries suffered from depressed prices for their leading export commodities.[76]

1. BRAZIL: Origin of the "Samba Effect"

The most dramatic impact of contagion occurred in Brazil, which began struggling in 1997 to prevent crisis through spending cuts, tax increases and high interest rates. In January 1999 the country gave up efforts to shore up its currency, the "real," allowing it to fluctuate against the dollar, leading to a drop in value of almost 36 percent. This set off a dramatic plunge in the country's stock market and created fears that Latin America could be in for an Asia-style crisis. Brazil is the eighth-biggest economy in the world and the largest in Latin America, producing about half of the region's industrial output. Many countries in the region depend on exports to Brazil.[77]

A month after the crash, the Brazilian government agreed on the framework of an austerity program as required by a $41.5 billion rescue package from the IMF, the United States and other world lenders.[78] By the end of 1999, Brazil showed better than expected economic growth (slightly positive average growth, compared to the decline of 3.5–4 percent projected in the March 1999.) Nevertheless, the official unemployment rate persisted at 7.7 percent in the period April–September 1999, only slightly lower than the 7.9 percent rate in the same period of 1998.[79] Independent groups claim that the true unemployment rate is closer to 20 percent. By contrast, Brazil's official unemployment rate was only around 3 percent in the late 1980s and early 1990s.[80]

Workers in the automobile sector suffered the hardest immediate impact in the aftermath of the Asian crisis. General Motors cut 1,800 workers in 1998 in a first round of layoffs and in January 1999 cut another 1,000, out of a total of 8,900. Ford laid off 2,800 at its Sao Bernardo plant the day before Christmas in 1998. According to Kjeld Jakobsen, of the CUT labor federation, workers occupied the plant for 20 days and in the end managed to negotiate a dismissal program that provided the workers with higher compensation. In early 1999, Ford threatened to lay off a third of its 1,800 workers at a lorry factory in Ipiranga.

In the midst of rising unemployment, Brazilians also faced rising costs for basic necessities. The number of real needed to purchase a typical basket of goods rose 3.5 percent in January 1999.[81]

Union response

Brazilian labor unions worked to oppose IMF-imposed austerity measures and criticized the undemocratic nature of the bailout negotiations while at the same time working to ease the immediate burden of the crisis on workers. For example, two major trade union federations, the CUT and the Forca Sindical, reached an agreement with car manufacturers in the Sao Paulo region designed to prevent mass layoffs. The plan proposed that the government lower the industrial production tax in exchange for the employers guaranteeing jobs and reducing the price of cars to "pre-devaluation" levels. The union estimated that the proposal would result in increased car sales that would make up for the government's loss in tax revenue.[82] Likewise, at the railway company Ferroban, workers threatened with a 50 percent cut in jobs negotiated with the firm, offering reduced working time and wages in order to preserve as many jobs as possible.

IMF Battles Against Anti-Poverty Programs

In early 2000, the Brazilian government announced a plan to spend more than $22 billion over 10 years to fight poverty. Despite the IMF's recently proclaimed commitment to eradicating poverty, Fund officials were sharply critical of the plan. *The New York Times* quoted the IMF representative in Brazil as saying that "the government plan established a precedent that could become dangerous….this money has to be used more effectively."[83] Although this official later retracted his statement, then-IMF Managing Director Michel Camdessus later reacted to the Brazilian plan by commenting that countries should pay off debts and achieve economic growth before handing out charity.

2. ARGENTINA: Hurt by Dependence on Exports to Brazil

Argentina suffered ripple effects (known as the "Samba Effect") from the crisis in Brazil, Argentina's main export market. Prior to the crisis, as much as 40 percent of Argentine exports went to Brazil. With the depreciated real making Argentine products more expensive for Brazilian consumers, Argentine sectors that depend on exports to Brazil suffered. The auto sector, which typically exports 60 percent of its products to Brazil, has been wracked by layoffs. For example, Fiat and Renault announced layoffs of 5,200 workers in late January 1999. Ford initiated a voluntary retirement program, aiming to reduce its workforce by 1,430 workers. Other Argentine sectors that rely heavily on the Brazilian market are textiles, pork, poultry, footwear, and rice.[84]

In the immediate aftermath of the Brazilian crisis, Argentina also saw significant losses in construction jobs as well as the first-ever drop in service sector jobs. An Argentine official attributed the strain in these sectors to high interest rates driven up by the Brazilian crisis.[85] Immediately after Brazil's devaluation, prime rates in Argentina rose from 10.62 to 15 percent, while rates for small- and medium-sized firms were near 20 percent.[86]

In late 1999, Brazil's troubles were continuing to contribute to Argentina's economic problems. Argentina's GDP was estimated to have declined by about 3 percent, while the rate of unemployment increased to 14.5 percent by August 1999, before declining to 13.8 percent in the last quarter of the year.[87] Argentines are dismayed that their unemployment rate is once again rising after having made progress in driving down the high jobless rate caused by the "tequila effect" of the 1994 Mexican financial crisis. From 18 percent in 1995, the rate had dropped to 12.4 percent in 1998. As recently as 1991, Argentina's unemployment rate was 6.3 percent.[88]

3. ECUADOR: Victim of Low Commodity Prices and other Contagion Effects

The contagion effects of the global financial crisis have contributed to extreme political and economic turmoil in Ecuador. The country suffered particularly severely from the drop in prices for oil, its main export, as well as capital flight related to the international financial crisis. El Niño storms also socked the country with billions of dollars worth of damage during this period.

In early March 1999, Ecuador's then-President Jamil Mahuad announced a package of harsh austerity measures and plans to privatize state-run enterprises. The austerity measures included an increase in gas prices of 170 percent and in the sales tax from 10 to 15 percent, as well as restrictions on bank withdrawals.

Labor unions, indigenous groups, and others responded to the plan with hostility, arguing that it would exact the most economic pain on the poor. (Some two-thirds of the Ecuadoran population lives in poverty.) When unions called for a two-day general strike, President Mahuad countered by declaring a 60-day state of emergency and deploying troops to keep the peace.

Two days into the state of emergency, the president of the Ecuadorian Confederation of Free Trade Unions (CEOSL) reported that the headquarters of the federation was surrounded by police and that some labor leaders were being constantly followed. He also said that the police were breaking up groups of protestors through indiscriminate tear-gassing.[89] Nevertheless, strikers persevered. For several days, taxi and bus drivers blockaded roads in the capital city with cars and burning tires. On March 15, IMF head Michel Camdessus lamented that the lack of unity behind an emergency program for Ecuador was the only factor preventing approval of an IMF bailout.

Tensions have continued to escalate as economic conditions worsened, despite a recent rise in oil prices. In 1999, output fell by 7.5

percent, inflation was more than 60 percent, and living standards plummeted. Unemployment is at about 16 percent and average wages are about $48 per month.[90] In September of 1999, the Mahuad government defaulted on about half of Ecuador's $13 billion in foreign debt. In January 2000, Mahuad began a controversial process of "dollarizing" the economy (substituting U.S. dollars for local currency) in an attempt to regain economic stability. Unions joined with other groups to stage massive protests against the extreme measure, which they feared would make their savings worthless and force further austerity policies. On January 15, 2000, police arrested the president of CEOSL and other opponents on charges of subversion (they were released two days later).

Then on January 21, indigenous groups allied with the military in a coup that ousted Mahuad. However, the military backed out shortly after assuming power, allowing Mahuad's Vice President Gustavo Noboa to become President. Noboa soon announced that he would continue to pursue the process of dollarization. As of March 2000, unions and others were continuing to protest the policy.

4. RUSSIA

Like Ecuador, Russia also suffered from the drop in the price of oil related to the Asian crisis. This factor exacerbated catastrophic conditions that have plagued the country throughout this decade as it struggled to implement an IMF-supported "shock therapy" program to transition to a market economy. By August 1998, contagion effects from the Asian crisis brought about a total meltdown. Russia defaulted on its foreign debt, the ruble took a nosedive, and the stock market crashed.

Even before this disaster, Russian workers had been facing extremely severe conditions. A major focus of the IMF "reform" program was to control inflation. With IMF support, the Russian government pursued an anti-inflation strategy that involved not paying wages to public employees. Private enterprises have also delayed salaries, in some cases because the firm was owed money from the government; in others, because the firm couldn't compete in the market economy.

By August 1998, Russian workers were owed about $12.5 billion in back wages. A public survey in February of that year showed that 20 percent of all Russian workers in both the private and public sectors had gone without pay for an average of three to four months.[91] Overall in 1998, average wages dropped 40 percent.[92] In terms of wage nonpayment, health care workers were the hardest hit, with a 33 percent increase in nonpayments, followed by culture and arts (28 percent), education (17 percent), and housing (10 percent).[93]

By the fall of 1998, workers were staging mass demonstrations and protest strikes. The ICEM reports that in some cases desperate workers have taken their employers or government officials hostage. There have been several cases of violence related to these disputes and, as in Asia, many workers committed suicide. The strikes and protests continued into early 1999, including a strike involving 100,000 teachers in mid-January. In response to this growing pressure, the Russian government announced in January 1999 that it was going to provide funds to cover current wages for workers directly employed by the government. The government also announced plans to raise the pay of government-sector workers by 50 percent, beginning April 1, 1999. However, consumers continued to face rampant inflation. Just in the month of January 1999, the cost of food jumped 10.4 percent.[94]

Even though Russia's economic growth rate in 1999 of 1 to 2 percent was better than expected, it is still about 3 percent lower than it was in 1997. The poverty rate in November 1998 was over 3 percentage points higher than it was in 1996. Unemployment in July 1999 was 12.4 percent, 1.5 percentage points higher than in July 1997.[95]

5. UNITED STATES

Despite the country's record-low unemployment rate, the impact of the financial crisis on U.S. workers became evident in 1998, a record year in terms of both layoffs and the trade deficit.

The consulting firm Challenger, Gray and Christmas cited the financial crisis, combined with a merger boom, as a major factor in the huge increase in job cuts in the United States in 1998. Companies announced nearly 678,000 cuts, the largest number since 1989. The 1997 figure was 434,350 layoffs.[96]

The U.S. Department of Commerce reported that the merchandise trade deficit rose 25 percent in 1998 to its highest level on record. The aggregate U.S. trade deficit in goods hit $248 billion in 1998, an increase of $50 billion over 1997. According to the Economic Policy Institute (EPI), the newly industrializing and Pacific Rim countries other than China and Japan—those hardest hit by the Asian crisis—were responsible for about half of this increase. Japan and China were responsible for another third, with Europe, NAFTA and other countries responsible for the remainder. In 1999, the trade deficit grew further to $347 billion.

The broader goods and services deficit also increased in the years following the crisis. In 1998 it jumped 53 percent, to $169 billion, and then rose to $271 billion in 1999.

Rising trade deficits have already taken a toll on the manufacturing sector, which lost 513,000 jobs between March 1998 and January 2000. In 1998, increased imports of steel, particularly from Japan, Russia and Brazil, touched off demands from steel companies and the United Steelworkers Union for increased protections against dumping of steel at below-market values. In early 1999, the Clinton Administration announced plans to impose anti-dumping duties and other restrictions on steel products from a number of countries. These measures resulted in a decline of U.S. imports of iron and steel mill products of $4 billion.[97]

Although their relative numbers are small, family farmers have been among the most severely affected by the crisis. The loss of Asian markets was a major factor in the drop of hog prices to their lowest level in two decades. Market prices as of February 1999 were less than half of production costs, giving most small producers no choice but to go out of business. Grain farmers as well faced plunging prices — a 60 percent drop for corn and 30 percent for soybeans between 1996 and late 1998.[98] In early 2000, the U.S. Department of Agriculture was predicting another tough year for farmers, with net farm income expected to plunge 16 percent this year to $49.7 billion, the lowest since 1986.[99]

III. Alternative Agendas

A. The Evolution of the Elite Debate on the Global Financial Architecture

For the first time since the end of World War II, there is now a genuine debate over the institutions and rules of the global financial system. The AFL-CIO has stated well a central goal for workers engaged in the debate: "We need a global New Deal that establishes new rules to temper the excesses of the market; promote sustainable egalitarian growth; and assure the rights of working people everywhere are respected."[100] But first, workers must fight their way to the table where the new "architecture" is being planned. As the International Confederation of Free Trade Unions has pointed out: "The debate over financial market reform has been held behind closed doors by bankers and financial ministry officials. There must now be full public participation."[101]

The context for workers' organizations demanding a place at the table is that there is now, for the first time in decades, significant elite discord over how best to govern our international financial system. The views of these dissidents have appeared in all the major mainstream newspapers. For example, former Secretary of Defense Robert McNamara was quoted in the *Wall St. Journal* as likening the crisis to the Vietnam War: in both the managers lost control. As early as 1997, two sets of elite actors began to emerge.

1. The Shift Toward Capital Controls

A first set of elite critics supports free markets for trade in goods and services but not for short-term capital. This set was well-represented in a task force sponsored by the Council on Foreign Relations, which issued a proposal in September 1999 for the future international financial architecture. Task force members including well-known free trade supporters such as former U.S. Trade Representative Carla Hills, former Federal Reserve Chairman Paul Volcker, and MIT economist Paul Krugman, among others, endorsed the report, which called for strong IMF support of capital controls. Specifically, the report stated that "the IMF should not merely permit holding-period taxes of the Chilean type on short-term capital inflows but should advise all emerging economies with fragile domestic finance sectors and weak prudential frameworks to implement such measures."[102]

There is also some support for this point of view in governments. The Canadian and Finnish parliaments endorsed the idea of an an international tax on foreign currency transactions to discourage speculative transactions. A resolution modeled after the Canadian one is being sponsored in the U.S. Congress by Rep. Peter DeFazio (D-OR) and Sen. Paul Wellstone (D-MN). Most Western European governments also support at least limited versions of capital controls, and the government of France was instrumental in pulling the plug on the proposed Multilateral Agreement on Investment, which would have further lifted barriers to investment.

2. The Meltzer Commission Report

A second set of Washington Consensus dissidents includes harsh critics of the IMF who root their critique in a profound defense of free markets. They charge that IMF rescue packages bail out investors, thus eliminating the discipline of risk in private markets (a phenomenon they refer to as "moral hazard"). They also criticize the IMF's long-term lending as an unnecessary use of public funds in an age when private financial institutions have dramatically increased their lending to the developing world. The proposed solutions of this camp range from abolishing the IMF altogether to drastically reducing the IMF's role in providing assistance.

The views of this camp were reflected in a report issued in March 2000 by the International Financial Institutions Advisory Commission, a congressionally appointed bipartisan group chaired by Carnegie Mellon University

Professor Allan Meltzer. The Majority Report of the Commission (signed by 8 of 11 members) provides a severe and wide-ranging critique of the IMF, including undue interference in countries' economic policies, financial bail-outs that reward reckless international creditors, and interventions of no clear gain to recipient countries. The report charges that the IMF's long-term policy lending goes far beyond the Fund's original mandate of ensuring stability in the international exchange rate system. It recommends that the IMF be scaled back to serve only as a lender of last resort to solvent member governments facing liquidity crises. Long-term IMF assistance tied to conditions would be terminated under this proposal.

These aspects of the report were welcomed by IMF critics across the political spectrum. However, the details of the Meltzer Report's recommendations on the IMF's future role offer those on the progressive end of the spectrum little reason for enthusiasm. This is mainly because although the Commission would abolish the IMF's power to impose conditions on developing countries in return for long-term assistance, it would still require that countries meet a list of rigid "pre-conditions" in order to be eligible for short-term (120 days maximum) crisis assistance. These "pre-conditions" include the following:

- **freedom of entry and operation for foreign financial institutions**

This requirement would disqualify from emergency assistance countries such as Brazil, which announced in early 2000 its intention to place controls on foreign banks. Indeed in many countries, the growing influence of foreign banks is a volatile political issue, stemming from the fear that these global banks are not as committed as domestic financial institutions to meeting local credit needs or maintaining the country's financial stability. In the case of Brazil, for example, a former central bank president charges that in the midst of the country's economic crisis, foreign banks advised their clients not to purchase Brazilian government bonds and other securities.[103]

- **commercial banks must be adequately capitalized**

This, the report says, should be consistent with recommendations from the Basel Committee on Banking Supervision, an organization based at the Bank for International Settlements which was formed by the G-10 central bank governors to set voluntary standards for the international banking industry. The Basel Committee promotes a ratio between a bank's investments and outstanding loans that is far higher than in most countries in the world. In fact, most developing countries currently have no standards at all on capitalization. If they could not meet this standard, they would be hung out to dry in the event of a liquidity crisis. Moreover, even if countries were to adopt such a standard, it is unclear whether this would have the desired stabilizing effect. According to Jane D'Arista of the Financial Markets Center, such a standard could worsen the impact of recession in developing countries since banks during these periods face difficulty attracting investments, and thus would need to call in loans to maintain the required capitalization ratio.

- **a proper fiscal requirement to assure that IMF resources would not be used to sustain "irresponsible budget policies"**

The problem with this requirement is that the IMF would be the body to define "irresponsible." In the past, their knee-jerk approach has been to urge governments to slash spending on social programs. The IMF even chastised Sweden, a country with low inflation, tremendous productivity growth and falling unemployment, for providing overly generous unemployment insurance.[104] There is nothing in the Commission's report that would require a different approach in the future.

The report also calls for IMF loans to be given a "clear priority claim on the borrower's assets." The method deemed "perhaps most promising" would involve requiring that other multilateral agencies and member countries refuse to provide loans or grants to any country that defaulted on its IMF loan.

These "pre-conditions" would allow the IMF to maintain tremendous influence over member country governments, even while terminating their long-term policy-based lending. Professor Jerome Levinson, a member of the Commission who dissented from the Majority Report, argues that the pre-conditions are so strict that the countries that are probably most in need of IMF assistance would be cut off.[105] One only need to consider how investors are likely to react when the IMF announces that a certain country has failed to pre-qualify for emergency assistance. The jitters this would likely provoke in the international financial markets would undermine the overall goal of stability.

Another aspect of the Meltzer Report which received favorable attention was a recommendation that the World Bank and IMF cancel all debts to the heavily indebted poorest countries. These debts, they concluded, are not repayable. However, the Report conditions debt cancellation upon the World Bank approving of the country's economic development strategy. This would likely perpetuate the same type of pressure to implement structural adjustment programs that has been the target of criticism in the past. Furthermore, as Commissioner Levinson points out, placing conditions on debt deemed not repayable is illogical. He advocates an alternative plan whereby debt would be canceled unconditionally, but future assistance for these countries would depend on whether they effectively handled the funds freed up through debt relief.

While the Meltzer Report's recommendations do not represent a model agenda for progressive activists, the Commission has clearly served to widen the crack in the elite consensus on these issues. Hoping to prevent the Meltzer Report's recommendations from gathering support in the U.S. Congress, U.S. Treasury Secretary Lawrence Summers released his own IMF reform proposal in March 2000, which calls for a more modest reduction in the IMF's role in long-term policy lending. Summers proposed ending the IMF's long-term development loans to poor countries but not its long-term loans dealing with poverty reduction.[106] He argued that the Meltzer Report's more radical recommendations could put U.S. security at risk by preventing the lender from helping a wide range of countries that would not meet the pre-conditions laid out by the Commission.

3. Other Cracks in the Consensus

In a number of instances, elite actors have broken from the policies of the consensus in practice. In Hong Kong, long heralded by free market adherents as a supreme example of free-market trade and finance policies, the government intervened in the stock market and acted to prevent currency speculation. And, after riots greeted the removal of price subsidies on key items in Indonesia in 1998, the IMF implicitly acknowledged that there were occasions when the costs of free market policies were unacceptably high. The Fund's post-Suharto agreement allowed for greater social spending and the maintenance of food, fuel and other subsidies. At the World Bank, president James Wolfensohn has taken small steps to distance himself and his institution from the Fund and its policies. In 1997, he and several hundred NGOs agreed to carry out a multi-country review of the Bank's structural adjustment policies. And more recently, Wolfensohn's speeches and Bank publications have included attacks on the social and environmental costs of free market policies. In February 2000, Wolfensohn even warned that there could be a backlash against globalization in Latin America, if solutions could not be found to reduce the region's increasing inequality.[107]

B. Alternative Agendas with a Labor Perspective

With the ruptures in the elite consensus and widespread popular discontent, there is a battle over an alternative framework. The challenge for progressive citizens organizations is to take advantage of this crack in the consensus to push forward an alternative set of goals and policies that promote the interests of workers and communities.

In Northern and Southern fora, unions, environmental groups, farmer organizations and others have already reached a certain level of consensus around a better alternative. They are suggesting that a broadening of development goals requires a reorientation of financial flows from speculation to long-term investment in the real economy at the local and national level. The ICFTU put it succinctly: "The aim must be to re-harness financial markets to facilitate long-term productive investment."[108] They are also suggesting that a premium be put on creating maximum space for local and national governments to set exchange rate policies, regulate capital flows and eliminate speculative activity. And they argue that mechanisms should be put in place to keep private losses private.

Such goals require new action at the international, national and local levels. Many of these proposals came together in December 1998 when Friends of the Earth, the International Forum on Globalization, and the Third World Network convened 70 representatives of the labor, environmental, faith-based, academic and other Northern and Southern networks to address whether there was yet a North-South citizens-labor agenda on the global financial crisis.

At that meeting, groups drafted a "Call to Action: A Citizens Agenda for Reform of the Global Economic System." The Call lays out an agenda that unites labor and other citizens concerns in both North and South. It begins by asserting the following goals of a new financial architecture:

1. Reorient finance from speculation to long-term investment

The rules and institutions of global finance should discourage all speculation and encourage long-term investment in the real economy in a form that supports local economic activity, sustainability, equity, and reduces poverty.

2. Reduce instability and volatility

The rules and institutions of global finance should seek to reduce instability in global financial markets.

3. Enhance local and national political space

The rules and institutions of global finance should allow maximum space for national governments to set exchange rate policy, regulate capital movements, and eliminate speculative activity.

4. Keep private losses private

Governments should not absorb the losses caused by private actors' bad decisions.

5. Development needs cannot be met by private capital flows alone

The rules and institutions of the global economy should seek to decrease private speculative flows while increasing those public flows that support sustainable and equitable development activities.

In the following sections, we expand on these goals and the debate surrounding them, drawing heavily from the recommendations put forward in the Call to Action. We have organized the policy proposals according to whether they are actions that governments should take at the international, regional, national, and local level.

THE AGENDA

INTERNATIONAL LEVEL

Governments should:

1. Establish An International Bankruptcy Mechanism

An international debt arbitration panel should be established to ensure that financial crises and sovereign debt obligations do not place undue burdens on countries and to prevent a liquidity crisis from becoming a solvency crisis. When sovereign debt service threatens the welfare of a country's people, the panel would restructure and/or cancel debts so as to ensure that important social services are not compromised in an effort to meet debt obligations. In a financial crisis, the panel would prevent a liquidity crisis from becoming a solvency crisis by arbitrating an agreement that meets the needs of sovereign debtor and creditor, thereby helping reduce the need for bailouts by the international community.

There are, by one recent count, at least 10 proposals on the table to attempt to move in this direction,[109] all of them drawing from U.S. bankruptcy laws as a model. Under U.S. law, Chapter 9 proceedings deal with the insolvency of municipalities, and Chapter 11 deals with insolvent firms. The most interesting of the proposals remove the IMF or World Bank as the key arbiters in crisis situations. Instead, the key institution is an international court composed of nominees put forward by the debtor and creditors.

One of the more developed proposals, an international Chapter 9 for sovereign borrowers, proposed by Kunibert Raffer of the University of Vienna would allow those people affected by the solution to be represented by trade unions (as in U.S. Chapter 9), UN agencies, or non-governmental organizations. Raffer argues for symmetrical treatment for all creditors, including the World Bank and IMF, so that multilateral agencies cannot insist on priority repayment. He suggests holding the multilateral institutions to account for the damaging effects of adjustment. Hence in Africa, where much of the debt has built up as a part of adjustment, these governments would be entitled to claim compensation for failed projects and reduce the debt burden further.

The major criticism of these types of proposals is that they are impractical in today's global system, since the legal framework to force creditors to accept a Chapter 11 or Chapter 9 type workout does not exist on a global scale. Currently, there is no single jurisdiction internationally that covers all the creditors involved.

2. Reform or Replace the IMF

With the establishment of the bankruptcy mechanism above, the IMF would ideally retain minimal capability as a lender of last resort and as a gatherer and publisher of international economic data. However, this will not be accomplished overnight. In the meantime, citizens groups must to continue to press for changes in a number of areas:

a. Reorient the goals of lending

The goal of IMF, as well as World Bank, lending must be to reduce poverty and support sustainable development. Although both the Bank and the Fund have made recent gestures indicating a newfound interest in alleviating poverty, critics rightly question the commitment and expertise of these institutions in carrying out this stated goal. The ICFTU has designated the following as prerequisites for the IMF and World Bank to follow in order to show a serious commitment to poverty reduction:[110]

- **social protection:** the IMF and World Bank should encourage member governments to introduce programs aimed at developing a comprehensive system of social safety nets

including retirement pensions, unemployment benefits, child support, sickness and injury benefits.

• **primary education and health care:** the institutions should support programs aimed at maintaining and enhancing school participation, especially for girls, increase the availability of health care for all, and request that countries develop or improve their strategies for eliminating child labor.

• **employment, social institutions and sound industrial relations:** the institutions should encourage labor market reforms that are based on respect for core labor standards as defined in the ILO Declaration on Fundamental Principles and Rights at Work. The Bank and Fund should also support the enhancement of programs to increase vocational training, establish and improve job search systems, and implement labor-intensive public works programs and counteract discrimination. According to the ICFTU, "In the emerging global economy, competitive advantage will lie with those countries that have strong social cohesion built on investment in education and training, health care and a sound industrial relations system founded on strong trade unions."[111]

The U.S. Executive Director is required by law to use his or her voice and vote on the IMF's Board of Directors to support IMF programs that maintain and improve core labor standards. Unfortunately, it is currently impossible to monitor the extent to which the Executive Directors adhere to this obligation. A March 1999 report by the U.S. Treasury lists seven countries about which the U.S. Executive Director to the IMF had raised labor concerns.[112] However, an AFL-CIO analysis reveals that these interventions were virtually unmentioned in public IMF documents and they appear not to have had any policy impact.[113] A better system for monitoring the U.S. Executive Directors' actions with regard to this legal obligation is clearly necessary. Jerome Levinson, a member of the International Financial Institutions Advisory Commission, goes further to argue that the U.S. government should condition its support for the World Bank and IMF upon the U.S. Executive Directors voting against financing proposals for countries that are egregious abusers of core worker rights.[114]

b. Terminate pressure to liberalize capital accounts

Critics charge that the IMF paved the way for the financial crises of the late 1990s by insisting in the early part of the decade that more "protectionist" nations of Asia eliminate restrictions on the inflow of foreign capital. While the resulting explosion of private money into Asia made many people rich, they enhanced the countries' vulnerability when economic conditions deteriorated and investors got spooked. Thus, the IMF should terminate its support for capital account liberalization and instead stick to the mandate of its charter, which authorizes member nations to "exercise such controls as are necessary to regulate international capital movements."

c. Achieve a higher level of transparency, accountability, and public participation in decision-making

While the World Bank has taken some steps to release more information to the public about its operations and to consult with nongovernmental organizations, the IMF remains largely closed to outsiders. In response to public pressure for more transparency, the IMF did launch a pilot project in 1999 to make public full copies of reports on their "Article IV consultations." These reports form the basis of IMF advice and assistance to these countries. Unfortunately, the pilot program is voluntary, and only a small, unrepresentative fraction of IMF member countries have agreed to release the reports. Nevertheless, a review of the 21 reports that had been made public as of January 2000 do provide some insights into the Article IV process. For example, IMF staff consulted with business representatives in 19 cases, whereas labor unions had participated in only 9 of the discussions and other nongovernmental actors were involved in only 7. The Article IV consultations are just one area in

which the IMF needs to improve its process to introduce a higher level of public participation and transparency. The institution must go much further in releasing as much information as possible to the public about its operations.

d. Ensure that creditors bear their share

Large private banks deserve a good share of the blame for the financial crises because they lent a great deal of money to developing nations without rigorous checks. But while millions of workers suffered greatly as a result of the crisis, the IMF bailouts protected the banks and their executives from the pain. One indication of this is the fact that the CEOs of the six U.S. banks that had the greatest loan exposure to the Asian crisis countries in 1997 gave their top executives average raises of 18 percent that year.[115] In the future, these institutions must bear their share of the burden. The IMF should have a stated policy that creditors and investors must make a substantial contribution before public moneys are disbursed in any future bailout.

What if IMF Reform Efforts Fail?

At this juncture, workers and their representatives should exert pressure on the IMF to reorient the institution to serve the needs of the world's people rather than international investors. This can be pursued through a variety of means, including direct engagement with IMF officials, lobbying around IMF funding appropriations (in countries where this is possible), demonstrations, public education, and written critique. However, the IMF may prove unreformable. For this reason, more work should be done to develop proposals around what type or types of institutions should replace the IMF—if any. Some scholars, such as Walden Bello, argue that developing countries would be better off with no international financial institution rather than the current IMF because this would allow local and national governments and citizens groups more autonomy in pursuing alternative development strategies.[116] However, in an era of global capital, we would ideally have international financial institutions that could help reduce volatility and contagion in ways that cannot be accomplished through nation states.

An international bankruptcy mechanism has already been discussed. In addition, a number of scholars have proposed the creation of a new Global Financial Authority or Global Central Bank. The most detailed proposals for such an authority come from economists John Eatwell and Lance Taylor.[117] They propose an institution that would:

- set global regulatory standards (such as capital requirements for financial firms) that national authorities would follow;
- consult with countries on their own capital market regime; and
- develop innovative means to direct capital flows toward long-term needs.

(This proposal assumes that the IMF would continue to play the role of international lender of last resort.)

Citizens groups have emphasized that any plan for a new global financial institution would need to begin with the establishment of sound procedures for transparency and democracy.

3. Provide Substantial Debt Reduction Detached from IMF and World Bank Conditions

Currently, debt payments cripple the ability of many developing countries to invest in development. Thanks to pressure from Jubilee 2000 and other groups, there is currently a great deal of momentum around the world on debt reduction. Several European governments have unilaterally canceled bilateral debts owed by poor nations. The G-7 richest countries also announced in June 1999 an initiative to cancel the debts of the 33 most impoverished countries. Specifically, the countries agreed to cancel $20 billion in debts owed to national governments and to add an additional $27 billion to a joint World Bank/IMF debt initiative known as HIPC (highly indebted poor countries).

In the U.S. Congress, there were six bills

introduced in 1999 in the U.S. House of Representatives and two in the U.S. Senate that involved debt relief. Some required that debt relief be linked to World Bank and IMF conditionality, while others, such as the "HOPE for Africa" bill by Rep. Jesse Jackson, Jr. (D-IL), did not. Others stipulated that the U.S. Congress should not give the IMF further funding until the institution canceled its loans to the poorest countries. As of this writing, these initiatives are pending.

Our recommendation is that any resolution of the debt crisis must include an expansion of the resources available and the countries eligible for bilateral and multilateral debt relief. This relief should not be conditioned on IMF and World Bank structural adjustment programs and it should allow countries to dedicate sufficient resources to health care, education, social services, and environmental protection.

4. Establish a Speculation Tax

In the late 1970s, Nobel-prize winning economist James Tobin of Yale offered a proposal to reduce short-term movements of capital by placing a small tax on foreign exchange transactions.[118] A tax as low as 0.2 percent would, in the words of economist Robert Kuttner, "be a trivial burden on genuine investments but a useful deterrent to transactions that were mainly speculative."[119] The United Nations conference on Trade and Development (UNCTAD) predicts that a phased-in 0.25 percent transaction tax would reduce global foreign-exchange transactions by up to 30 percent, while generating tax revenues globally of around $300 billion.[120]

Since Tobin's proposal, there have been a flurry of proposals to tax short-term speculative flows. Some of the proposals posit the creation of a global development fund from the proceeds of the tax; a portion of the funds could be steered to environmental clean-up or other social goals. One of the most successful U.S. investors, Warren Buffet, has proposed a 100 percent tax on short-term (securities held less than a year) capital gains from stock trading, a measure that would encourage long-term productive investment. Former President Francois Mitterand of France attempted to get the Group of 7 industrial governments to consider a variant on the Tobin tax, but the United States and the United Kingdom opposed the idea.

Critics claim that the Tobin tax would be hard to enforce and, unless all countries adopted it, trading would shift to tax-free havens. On the other hand, over 80 percent of foreign-currency transactions take place on the exchanges of Europe, the United States, and Japan, so a tax adopted by these countries alone would have a significant impact. Moreover, if the political will exists, it would be possible to develop a mechanism for penalizing transactions with tax havens and it is encouraging to see efforts in some governments to support the establishment of such a tax.

REGIONAL LEVEL

Governments should:

1. Establish Regional Crisis Funds

Japan proposed an Asian Regional Fund during the fall of 1997 to swiftly inject capital into Asian nations as financial crises emerged. The U.S. Treasury Department moved quickly to kill this proposal and has opposed similar proposals in different incarnations that have been tabled in 1998 and 1999. It seems that opposition to these proposals has more to do with the Treasury Department's desire to maintain control over the global financial system than with any legitimate criticisms of such funds. We believe that countries should be encouraged to form such regional funds if they are designed to respond quickly to crises while maintaining regional sensibilities and interests.

NATIONAL LEVEL

Governments should:

1. Retain the Right to Apply Speed Bumps and Capital Controls

The rules and institutions of the global economy should allow maximum space for national government policy-making to regulate the amount, pace and direction of capital movements. A financial crisis in one country often spreads panic quickly to a number of other countries with equally open and deregulated markets, the so-called "tequila effect." However, countries with some form of capital controls have weathered the storm far better. This has opened up a debate over the wisdom of capital controls, a topic which previously the IMF and other international institutions placed off limits.

In fact, a January 2000 report by the IMF marked a rather dramatic departure from the Fund's usual orthodoxy of encouraging openness to all forms of international capital. Authored by six IMF analysts, the study examined the experiences of Chile, Brazil, Colombia, Malaysia, Thailand, China, and India, all of which have used some form of capital controls for some period of time. While stopping short of giving an enthusiastic endorsement of all capital controls, the report concedes that these measures have been effective in certain situations.

For example, with regard to the emergency capital outflow controls put in place by Malaysia in late 1997, the report states, "the controls gave Malaysian authorities some breathing space to address the macroeconomic imbalances and implement banking system reforms."[121] The report further concedes that China's and India's experiences with long-standing and extensive controls on capital flows "may have had some role in reducing the vulnerability of these countries to the effects of the recent regional crisis. In particular, they helped shift the composition of capital inflows toward longer-term flows."[122]

The IMF report supports the findings of an earlier study, conducted at the time of the 1994-1995 Mexican crisis by economists Barry Eichengreen and Charles Wyplosz. They examined the affects of the crisis on the interest rates of countries with some type of control on capital outflows (Brazil, Chile, Colombia, Indonesia, Malaysia, and the Philippines) versus those with none (Argentina, Mexico, Venezuela, Thailand, Singapore, and Hong Kong). In the first quarter of 1995, countries with controls maintained stable interest rates, while those without controls experienced significant increases in interest rates as they struggled to prevent rapid capital flight.[123]

A March 1999 poll of senior bank executives by BankBoston in March 1999 revealed that capital controls may face a bright future. Two thirds of all bankers surveyed expect that capital control use will be increased in the future.[124]

While supporting the right to impose capital controls, workers should nevertheless be aware that these measures are insufficient by themselves to defend living standards from global financial crisis. Economist Fernando Leiva points out that in Chile, capital controls in place before and in the aftermath of the Asian financial crisis did make the contagion effect of the crisis less severe, but were not enough to prevent the country from entering a deep recession and experiencing a rise in unemployment. According to Leiva, "What is needed are more effective forms of social protection (unemployment insurance, job creation, training and re-training programs) that can temper negative social impacts from the increasing turbulence of the world economy. Ultimately, such protection requires transformation of the export-oriented models based on super-exploited labor and destruction of natural resources."[125]

2. Encourage Long-term, Productive Investment[126]

This goal can be pursued through a number of policies, including:

a. Eliminate Short-term Manipulative Instruments

A Tobin-style tax would discourage speculative capital flows at the international level. At the national level, governments should also set regulations and incentives on cross-border transactions so as to eliminate capital flows that are entirely speculative (i.e. gambling on market fluctuations as differentiated from hedging risk) and that can undermine the real economy.

b. Place performance requirements on investment

Governments should retain the power to impose requirements on foreign corporations to ensure that their investments benefit the local community. These can include requirements that the company use a certain percentage of local or national content in production, hire local personnel, achieve the transfer of technology, and repatriate only a certain amount of assets in a given year. Similarly, governments should place performance requirements on corporations that receive government subsidies or tax breaks.

3. Maintain Stable Exchange Rate Regimes

National governments should strive to reduce the volatility that has characterized exchange rates since the collapse of the Bretton Woods arrangements in the early 1970s. In part, this problem could be solved through the implementation of taxes on foreign exchange transactions, such as a Tobin Tax, and through controls on short-term capital flows, since these measures would reduce the speculative financial activity that contributes to exchange rate volatility.

However, according to economist Robert Blecker, even if these measures were in place, countries would still need to carefully choose a foreign exchange rate regime that would maximize stability. The new global financial architecture should allow national governments the power to make decisions about their own exchange rate policy rather than mandating any one particular option.

In the wake of the financial crises of the 1990s, however, the orthodoxy on exchange rates holds that countries should go to one extreme or the other, by pursuing either rigidly fixed or freely floating rates. This is in response to the failure of pegged exchange rate regimes pursued by crisis countries in East Asia and Latin America. In an effort to prevent devaluation, many countries spent billions of dollars and raised domestic interest rates to sky-high levels — all to no avail.

Nevertheless, Blecker points out that neither firmly fixed nor fluctuating rates are without drawbacks. For example, fixed rates, such as the extreme proposal to "dollarize" the currency of Ecuador, impose severe constraints on a country's economy and could drastically depress domestic demand, employment, and growth.[127] Some have cautioned that the United States might even be able to use the dollar as a weapon, withholding currency from an intractable government to bend it to Washington's will. In fact, the Bush administration took just that step against Panama as part of its effort to overthrow Gen. Manuel Antonio Noriega.

Fluctuating rates, on the other hand, theoretically allow countries more autonomy. In troubled economic times, they can allow their currency to depreciate, in the hope that a devalued currency will spur export growth. However, this approach is unlikely to pay off in situations where many countries are simultaneously trying to export their way to prosperity, since the glut of goods on the world market will result in lower prices. Moreover, depreciation increases the cost of servicing debts denominated in foreign currency.

Blecker offers two alternative approaches that,

while not without risks, may be preferable to either rigidly fixed or floating rates:

fixed rates with real targets: by focusing on real (adjusted for inflation), rather than nominal exchange rates, this approach avoids the risk of currencies becoming misaligned in real terms if inflation rates differ between countries. A proposal by Paul Davidson would create a new international institution to manage such a regime that also includes additional mechanisms to shift the burden of adjustment from debtor countries to creditor countries to foster higher average employment growth worldwide.

target zones: these would allow considerable but limited fluctuations in exchange rates. To compensate for international inflation differentials, the nominal targets would need to be revised periodically, allowing for "crawling bands." One advantage of this system is that it would not require the creation of a new international institution.

LOCAL LEVEL

Governments should:

1. Encourage local investment

As conventional wisdom begins to shift away from the free flow of capital across borders as the great panacea, there is a growing literature about the need to root capital locally. The AFL-CIO has created a Center for Working Capital to seek innovative ways to redirect workers pension funds to meet the long-term investment needs of local communities. The Institute for Local Self-Reliance has been an incubator of such ideas and many of the current success stories can be found in a book by Michael Shuman entitled *Going Local*. To support these initiatives, local and national regulations, taxes and subsidies should be structured in such a way so as to encourage local investment in enterprises that support living wage jobs and environmental sustainability. The Washington, DC-based organization Good Jobs First provides support for a booming number of local initiatives to ensure that taxpayer dollars are used to support investment that results in well-paying, stable employment and combats sprawl. Local education initiatives should also inform citizens about the power of using their assets.

Conclusion

Nearly three years after the onset of the international financial crisis that began in Asia, workers in many countries of the world are still suffering the consequences and the world still has no comprehensive system in place to prevent future such crises from occurring. However, proposals now exist that would advance workers' interests through a new global financial architecture. The success of these proposals in years to come depends on education, mobilization, and concerted political action.

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