FIRST ITEM ON THE AGENDA

Shaping a fair globalization: Perspectives and prospects for the Decent Work Agenda

Introduction

1. The preamble to the 2008 ILO Declaration on Social Justice for a Fair Globalization (the 2008 Declaration) describes the current context of globalization and the ways in which it is reshaping the world of work. It positions decent work “as an effective response to the challenges of globalization”. 1 As a contribution to the Governing Body’s consideration of the follow-up to the Declaration, this paper discusses perspectives and prospects for the shaping of a fair globalization and the implications for the ILO’s pursuit of the Decent Work Agenda. The paper identifies some of the key economic, social and environmental dimensions of sustainable development that will affect the context of the action undertaken by the Organization to assist its Members.

2. The starting point is an examination of the impact of the financial crisis and the surge in fuel and food prices in 2007–08 on the policy challenges facing ILO constituents and the Organization as a whole. Following the events of mid-September 2008, the freezing up of many of the main conduits of international finance, the massive interventions by governments and central banks, and the continuing volatility of conditions in the financial markets, economic forecasters are placing many caveats on their projections. It is likely that industrialized countries as a group will be in recession in 2009 and recovery may be slow. Developing and emerging countries are unlikely to avoid the effects of the weakening of industrialized countries. The emergence of new growth poles, such as Brazil, Russian Federation, India, and China, may mean that some economic dynamism will be maintained, although perhaps not enough to prevent a strong impact on employment and an increase in poverty in many countries. Overall, the International Monetary Fund (IMF) forecasts 3 per cent growth in global output for 2009, based on expected growth of 0.5 per cent in industrialized countries and 6.1 per cent in the developing world. Recovery is not foreseen before the end of 2009 and is likely to be weak.

3. Based on the revised global growth estimates of the IMF and the United Nations (UN), as well as early reports suggesting rising job losses for most countries where data was

1 See 2008 Declaration, preamble.
available, the ILO’s preliminary estimates indicate that the number of unemployed could rise from 190 million in 2007 to 210 million in late 2009. The number of working poor living on less than US$1 a day could rise by some 40 million, and those living on $2 a day by more than 100 million. An addendum to this paper to update the information provided to the Working Party in March 2008 at the outset of the current crisis will be distributed just before the sitting of the Working Party.

4. The onset of a global recession is already leading to discussion of significant policy shifts both nationally and internationally. The shaping of policies for recovery will strongly influence the medium-term policy environment in which the ILO will pursue the goal of social justice for a fair globalization. The paper therefore briefly examines eight policy fields that are closely related to the Decent Work Agenda and on which the Working Party may wish to deepen its dialogue with other international agencies and experts in future meetings.

Financial turmoil: Halting the panic and addressing the consequences

5. Turmoil in the financial markets of the industrialized countries, which originated in the United States but has spread worldwide, is creating great uncertainty. The collapse of a huge shadow market in credit derivatives has led to both liquidity and solvency crises in major finance houses, unprecedented public intervention in financial markets, including the purchase of equity stakes in banks, and widespread recognition that the current regulatory system, which failed to prevent imprudent lending on a very large scale, is in urgent need of reform. With financial markets operating on a global scale, the effects of the credit collapse have spread worldwide, initially affecting Europe but spreading to almost all countries to some degree with serious consequences for the real economy.

6. Efforts were initially focused on designing massive crisis management mechanisms aimed at arresting the precipitate decline in the value of the asset base of banks and other finance companies, rebuilding the creditworthiness of counterparties and easing the freeze in credit. The deepening of the crisis coincided with the annual meetings of the IMF and the World Bank in October 2008 at which concern over the risk of a cascade of bankruptcies led to a coordinated effort by the United States, European countries and several other countries to halt and reverse the breakdown of the global financial system. These measures included the recapitalization of banks through share purchases, the supply of huge amounts of liquidity to offset the freezing of interbank and corporate short-term lending, guarantees for bank deposits and cuts in interest rates. While the measures may prevent the feared breakdown, recovery in financial markets will take some time. Furthermore, the effects of the financial crisis will feed through into investment, output, consumption and employment, and back into financial markets.

7. Alongside emergency measures, discussions are under way at the highest level to reform regulatory systems. One likely aim is to ensure that the risky innovations at the heart of the crisis, which escaped or were exempted from existing supervisory systems, are brought within the regulatory framework. Such reforms are necessary to restore confidence and stability and to ensure a durable recovery.

2 GB.301/WP/SDG/1.

3 The statement of the Director-General to the meeting is attached in the appendix.
8. The possible consequences of the financial crisis for employers and workers are a focus of growing concern. Banks have already made thousands of employees redundant. Furthermore, with banks and other finance houses extremely risk-averse, businesses are finding their short-term lending possibilities cut back, which immediately affects financing of the purchase of materials in the manufacturing sector, stocks for the retail sector, and trade. Even large “blue-chip” companies have experienced difficulty in selling the corporate bonds that are a key element in maintaining their working capital. Smaller enterprises are likely to be hit harder. Companies with large existing debts as a result of leveraged buyouts may be particularly exposed.

9. The collapse of credit, even if halted and reversed by the October measures, could still lead to lay-offs over the coming months. Smaller enterprises have the greatest difficulty in maintaining credit lines and employ a significant share of the workforce in all countries. The construction industry has been hit hard in several countries. Households are also experiencing difficulty in obtaining or maintaining housing, student and credit card loans. This, coupled with the fear and increasing reality of job insecurity, is inhibiting consumer spending. The impact of the credit freeze on the real economy is hitting industrial countries first but is spreading to emerging and developing countries.

10. There are several channels by which the damage to investment, growth and employment created by the credit crisis is affecting emerging and developing countries. Markets in industrial countries will be depressed for some time: export sales will be lower, investment flows of all types are likely to fall, remittances may also fall, and aid budgets could come under pressure as donor countries’ fiscal deficits expand. A number of developing and emerging economies have growing balance of payment deficits largely as a consequence of increased oil prices. Commodity prices have dropped off their mid-year peaks. How far back they fall will depend to a large extent on the depth and length of the recession. For fuel- and food-importing countries this eases difficulties, but it has the opposite effect for exporters, particularly of hard commodities used in industrial production. The costs of borrowing are rising and several governments of the more vulnerable countries have sought IMF support.

11. The impact of the spreading slowdown is likely to be felt most by the weakest in society. As documented in the World of Work Report 2008: Income inequalities in the age of financial globalization, published by the International Institute for Labour Studies, volatility in financial markets has particularly deleterious effects on prospects for decent work. The “boom” phase of massive credit creation was associated with big increases in top private sector salaries in a number of countries while average real wages stagnated or fell. Labour shares in national income also fell. Previous financial crises have demonstrated that the most vulnerable are most affected in the “bust” phase, through job losses and cuts in wages. In some Asian countries it took almost ten years to recover ground lost in the struggle against poverty after the 1997–98 crisis.

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5 Remittance flows to Mexico plummeted 12.2 per cent in August, recording their biggest yearly fall since records began and signalling an end to years of hitherto vigorous growth, according to a report in the Financial Times of 2 Oct. 2008.

12. One of the preconditions for success in generating the decent work opportunities is strong and stable growth. One of the ILO’s key interests in the efforts to reform financial market regulations and ensure that the current crisis is not repeated is therefore the establishment of systems that encourage investment in the expansion of productive capacity and employment and discourage the sorts of speculative investment that led to the formation of asset “bubbles”, especially in property and commodities. Of particular concern are the rules concerning “derivatives”, financial instruments whose value depends on the value of other underlying financial instruments such as mortgages, and which, unless prudently regulated, pose systemic risks when asset bubbles burst.

13. These questions are currently being examined by national authorities, and internationally by the Financial Stability Forum (FSF), the IMF and the Bank for International Settlements (BIS), as well as by finance industry associations. Among the issues under consideration is the adequacy of the Basel II Framework, even though it is not yet fully applied. This framework, which was initially agreed in 2004, establishes the minimum standards for capital adequacy to be applied by national supervisory authorities. However, the wide variety of national systems means it will still take several years to complete the changes envisaged in the Basel II Framework. While the formulation of new means of preventing financial crises is the responsibility of other bodies, the ILO may wish to discuss with (for example) the IMF, the FSF and the BIS how reforms might support a more stable environment for sustainable enterprise and the generation of decent work opportunities.

Resolving global imbalances and stimulating a sound recovery

14. One of the reasons economic forecasters and financial markets are uncertain about the depth, length and spread of the slowdown is that the financial crisis may be a symptom of deeper underlying imbalances in the global economy. The United States has run a large current account deficit for several years, together with a very low savings rate and a substantial fiscal deficit. For most countries this would not be sustainable. The deficit was financed by investments from countries with current account surpluses and large currency reserves, notably Japan, the Gulf States and China, in a variety of US assets, including government bonds and high-yielding but risky derivative commercial securities. Concern about these huge imbalances led the IMF in 2006 to initiate multilateral consultations between the countries involved in order to explore the possibilities for mutually reinforcing policy adjustments, encouraging a gradual rebalancing of the world economy and avoiding the “hard landing” of a recession in the United States. This effort failed and the hard landing is now in progress.

15. With fiscal deficits in industrial countries widening dramatically to provide emergency funding for the financial sector, there is a danger that other expenditure vital to sustaining jobs and living standards may come under pressure. This could add to the risk of a cumulative decline in economic activity. A relaxation of national and international guidelines for fiscal deficits in the short term is a first step towards limiting the risks of a deep and long recession. Automatic stabilization mechanisms, such as unemployment

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7 The Financial Stability Forum brings together senior representatives of national financial authorities (e.g. central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. Mr Mario Draghi, Governor of the Banca d’Italia, chairs the FSF in a personal capacity. The FSF is serviced by a small secretariat at the Bank for International Settlements in Basel, Switzerland.
insurance, should be allowed to operate. Public investment in infrastructure could be increased alongside support to small businesses. The IMF conditions for balance of payments support might normally be expected to add to the powerful deflationary forces of the credit squeeze, but they may be relaxed because they risk exacerbating the global slowdown. It is particularly important that promises to raise official development assistance (ODA) to the least developed countries are kept, to help insulate, to some degree, the government finances of countries with high levels of poverty. The crisis has made it even more important for the upcoming UN Conference on Financing for Development to reach successful conclusions.

16. A further issue that may figure in responses to the crisis is the question of exchange rate management and currency reserves. The United States dollar remains the main reserve currency, despite its marked depreciation over the past five years and the diversification by some countries towards increased holdings of the euro. The reserves held by the IMF that are available to ease adjustment problems are a fraction of those held nationally. Exchange rate instability and excessively large currency reserves could be further obstacles to recovery.

17. The crisis is provoking discussion on whether and how fiscal and monetary policy shifts could be coordinated to maximize their impact on the global economy. This issue has also led to a debate about the adequacy of forums such as the Group of Eight (G8), the Group of 20 (G20), the Organisation for Economic Co-operation and Development (OECD), the IMF, the World Bank and the UN. A summit of leaders of the G20 group of countries will be held in Washington on 15 November 2008. The ILO and its constituents will wish to stay well informed of such discussions and seek to ensure that the importance of creating a conducive environment for sustainable enterprises and the generation of decent work is central to policy-making. Similarly, in discussions at the national level about macroeconomic policy responses, constituents will wish to convey the importance of the “world of work” perspective. The ILO’s Global Employment Agenda offers a comprehensive framework for the challenges posed by the crisis and its impact on labour markets. Tripartite discussions are particularly appropriate given the enterprise, employment and social consequences of the crisis. The Office will endeavour to respond to requests for support from constituents to strengthen their capacity to engage in such policy-making discussions.


9 President Bush, President Sarkozy and President of the European Commission, José Manuel Barroso, issued the following communiqué after meeting on 18 October. “The three leaders had a very positive discussion about the continued coordination of steps needed to solve the crisis in today’s global economy. They agreed they would reach out to other world leaders next week with the idea of beginning a series of summits on addressing the challenges facing the global economy. World leaders will be consulted about the idea of a first summit of heads of government to be held in the US soon after the US elections, in order to review progress being made to address the current crisis and to seek agreement on principles of reform needed to avoid a repetition and assure global prosperity in the future. Later summits would be designed to implement agreement on specific steps to be taken to meet those principles.” Also of interest is the speech of the President of the World Bank, Mr R.B. Zoellick, on 13 October to the Annual Meetings of the Boards of Governors of the IMF and the World Bank on “Modernizing Multilateralism and Markets.” See World Bank, Annual Meetings 2008: Opening Plenary Session, 13 October 2008, http://web.worldbank.org/WEBSITE/EXTERNAL/EXTAUTH/ORGANIZATION/EXTPRESIDENT2007/0,,contentMDK:21937775~menuPK:6482279~pagePK:64821878~piPK:64821912~theSitePK:3916065,00.html (accessed 22 Oct. 2008).
Drivers of market integration: Trade, investment and global production networks

18. Trade expansion is one of the main drivers of globalization, but with the slowdown it is forecast to grow in volume by about 4 per cent in 2009, down from over 9 per cent in 2006. The liberalization of import controls in successive trade rounds was an important factor in releasing this growth, although the effect of dramatically falling transport and communication costs must not be forgotten. A major concern is the unevenness of trade growth and its consequent effects on employment and living standards. Nearly three quarters of world trade is between industrialized countries and rapidly industrializing and five large oil-exporting emerging or developing countries.

19. At the breakdown of the Doha Round talks in July, many trade ministers cited concerns about the impact of some of the proposals on jobs and livelihoods. As demonstrated by the joint study of the ILO and the WTO Secretariat on trade and employment, there are strong connections between labour market dynamics and trade. Trade, by intensifying competition, accentuates the process of job creation and destruction inherent in market-driven innovation. An effective employment policy framework, by accelerating and easing employment adjustments, enables countries to benefit more and reduce the costs of trade opening. Similarly, an effective employment policy framework should, in principle, help address the displacement effects of trade opening, easing the concerns that can hold up trade agreements.

20. A further joint study is being prepared on the relationship between trade and informal employment in developing countries, which should be completed by mid-2009. In addition, the Directors-General of the ILO and the WTO have agreed to start a joint study, perhaps along with other collaborators, on the employment and social impact of the elements of the Doha Round that were approaching agreement when the talks broke down. This, if successful, would help to shed light on the possible impact of a further round of trade liberalization. The interaction between trade and employment policies will remain a key topic in shaping a fair globalization in the medium term.

21. Trends in trade and international investment flows are closely related. Emerging country stock markets have fallen steeply during the crisis, as has foreign lending to governments and major companies. The IMF projects total external capital inflows to developing and emerging countries to fall by half in the year ahead, transmitting a sharp deflationary shock to some countries.

22. The foreign direct investment (FDI) component of total investment flows is important to the shaping of globalization, particularly the global production networks that are a feature of many industries. Although FDI continued to grow strongly in 2007, it is likely to be adversely affected by the slowdown. Two-thirds of FDI inflows went to industrialized countries, and, of the remainder, two-thirds was concentrated in 15 emerging and developing countries. The biggest recipient by far was China (including Hong Kong) with nearly 30 per cent of the developing countries’ share. The East Asian and South-East Asian countries saw particularly large inflows, with Indonesia, Singapore, Malaysia, South Korea and Thailand each exceeding 10 per cent of the developing countries’ share. India and Brazil also received significant inflows.

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countries, which constitute the hub of the world’s assembly industries, accounted for about 40 per cent of inward FDI to developing countries. Oil-producing countries accounted for much of the balance. 13

23. The growth of global production networks, and especially shifts in the location of assembly work, has evoked a vigorous debate about their impact on development. It has also raised the question of whether new mechanisms are needed to protect working women and men in both developed and developing countries. This issue is likely to rise in prominence as the effects of recession spread through global production networks. Higher transport costs, shifts in exchange rates and recession in industrialized economies may slow the trend towards globally integrated production networks in the short term, but looking further ahead they are likely to be an enduring feature of globalization. The 2008 Declaration calls on the ILO to develop “new partnerships with non-state entities and economic actors, such as multinational enterprises and trade unions operating at the global sectoral level in order to enhance the effectiveness of ILO operational programmes and activities, enlist their support in any appropriate way, and otherwise promote the ILO strategic objectives. This will be done in consultation with representative national and international organizations of workers and employers”.

24. One aspect of the growing awareness of the importance of shaping a social dimension to globalization is the emergence of interest in corporate social responsibility (CSR), through which multinational enterprises give consideration to the social and labour impact of their operations, both directly and in the networks in which they engage.

25. International framework agreements (IFAs) between 52 multinational enterprises and Global Union federations covered over 4 million workers in 2008. By comparison with CSR initiatives, which are generally not negotiated, IFAs represent a joint commitment to the application of the principles they contain. In most cases these include the fundamental principles and rights at work.

26. The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) is the ILO’s reference point for its CSR-related activities. It represents a unique set of guidelines for voluntary action on labour issues and is the only international instrument in this area that has been agreed by governments, employers’ organizations and trade unions on the basis of universal standards. A common feature of private CSR initiatives, IFAs, the MNE Declaration, the OECD Guidelines and the United Nations Global Compact is the extent to which they draw on international labour standards in their provisions regarding employment and decent work. With global production networks of many varieties set to become a feature of globalization, there would appear to be considerable scope for the promotion of sustainable enterprises and the MNE Declaration as a way to anchor ILO principles and means of action for promoting social justice more firmly in the various mechanisms for connecting corporate business practices to the Decent Work Agenda. 14

Reducing poverty and inequality

27. While it is increasingly common to talk about the global economy, and even more so as a result of the current focus on the crisis in the global financial system, the reality is that the


14 See also GB.303/MNE/1.
bulk of the world’s population remains on the fringes of the investment and trade engines of growth and development. Of the 4.6 billion people of working age in the world, over 3 billion, or about two-thirds, are either working or looking for work. Of these, 84 per cent live in the developing countries of Asia and the Pacific, Africa, Latin America and the Caribbean, as well as the emerging economies of the Commonwealth of Independent States (CIS) and South-Eastern Europe. The remaining 16 per cent live in the European Union and other Western European countries, North America, Japan, Australia and New Zealand. In the developing world, the populous Asia and Pacific region dominates, accounting for more than 57 per cent of all employment. The two giants, China and India, account for 26 per cent and 14.8 per cent of world employment, respectively. 15 The population of working age in the developing world is growing by about 60 million a year, an average of 2 per cent. Women constitute 40 per cent of the world’s labour force. From 1991 to 2005, the global female workforce increased from below 1 billion to 1.22 billion, mainly as a result of growth in the developing world. This represents 52.5 per cent of women of working age.

28. The World Bank has recently revised its estimates of global income poverty using new and much more extensive estimates of the cost of living in developing countries. With the new information, the Bank has redrawn the extreme poverty line at US$1.25 a day instead of $1. This has had the effect of increasing the number of people below the extreme poverty line, which is the reference for the first Millennium Development Goal (MDG) of halving extreme poverty between 1990 and 2015. The Bank estimates that 1.4 billion people are below the $1.25 level compared to 1.9 billion in 1990. This is a decline of about one percentage point a year, which means that the first MDG could be achieved. However, this decrease is almost entirely due to the fall in extreme poverty in China. The rest of the developing world will not, on current trends, achieve the first MDG. Trends in sub-Saharan Africa are particularly worrying, despite recent improvements in growth.

29. The new estimates by the Bank show that less progress has been made in reducing $2 a day poverty. In 2005, 2.6 billion people were living at or below this level, compared to 2.75 billion in 1990 and 2.6 billion in 1981. This is a smaller share of the developing world’s population, at 48 per cent compared to 63 per cent in 1990 and 69 per cent in 1981. A further worrying finding is the increase in the number of people just above the $1.25 level who are at risk of falling back into extreme poverty as a result of the recent rapid rise in food and fuel prices. 16 Moreover, these estimates do not reflect intra-household inequalities, or the fact that some population groups, on the basis of sex, race, ethnicity, caste or area, tend to be more vulnerable to falling into and staying in poverty. Trends in income poverty tend to mirror other dimensions of poverty, such as health status, educational attainment and access to social services. 17

30. As well as information on the incidence of absolute poverty, whether inequality is widening or narrowing is important to considerations of social justice. The revised

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15 The Director-General’s Report to the 2006 International Labour Conference on Changing patterns in the world of work summarized long-term trends in world population and their effects on the global labour force.


estimates of comparative purchasing power show that real income per capita is considerably lower in many developing countries than was previously thought. Whereas previously total real income per capita for the United States was thought to be six times higher than for China and 12 times higher than for India, the revised estimates show the figures closer to ten times higher than for China and 20 times higher than for India. Whereas the global Gini coefficient was thought to be about 0.65, it is now thought to be about 0.70 (0 indicating complete equality and 1 complete inequality). 18

31. A pattern of growing inequality within countries is also shown by the 2008 ILO Global Wage Report’s data on wage inequality within developed and developing regions. This shows growing overall wage inequality between 1995–97 and 2004–06 in three-quarters (23 out of 31) of countries evaluated. 19 This trend is also confirmed by a survey of data on overall income inequality within countries, which found that this increased in two-thirds of countries after 1980. 20 Labour shares – that is, the share of a country’s income that goes to workers – are of particular relevance for the ILO, as they provide an indication of how the fruits of economic growth are shared between workers and employers. The report shows falling wage shares between 1995–2000 and 2001–07 in over two-thirds (54 out of 79) of countries evaluated. The recent International Institute for Labour Studies’ report confirms that between 1990 and 2005, approximately two-thirds of countries experienced an increase in income inequality with the incomes of richer households increasing relative to those of the middle class and poorer households. Furthermore, the income gap between top executives and the average employee is widening at an increasing pace. 21

32. Decent Work Country Programmes and their integration into national development strategies through, for example, the use of the Toolkit on mainstreaming employment and decent work, constitute a key operational mechanism for the UN and the ILO’s commitment to reducing poverty and inequality. At the heart of this work is the relationship between the governance of labour markets and the pace and inclusiveness of growth and development. As well as research and analysis, continuous evaluation of ILO programmes can take knowledge of these relationships further. Strategies for the transition from informal economic activity to formal systems are crucial. In this respect, there is a need to focus on developing a conducive environment for sustainable enterprises, with particular reference to the creation of new, and the strengthening, of existing micro- and small enterprises, and on ensuring that increasing numbers of working women and men are able to assert the protections associated with a recognized employment relationship. 22

Extending the coverage of basic social protection systems is an important challenge, especially in the light of recent rapid increases in food and fuel prices.


21 op. cit.

Food prices, poverty and rural development

33. Soaring food prices have pushed more people into poverty and are seriously worsening conditions of life for those who are already poor. Poor households are eating less, switching to cheaper coarse cereals and reducing non-food expenditure, such as on schooling. These sacrifices can lead to irreparable damage to the health, skill levels and productivity of millions of poor people worldwide. This is not only a crisis now, but a “time bomb” for the future, representing a waste of the human and economic potential of poor people and countries.

34. The poverty crisis, accentuated by rising food prices, highlights the importance of building basic social protection systems in developing countries. The 2008 Declaration stresses the objectives of “developing and enhancing measures of social protection – social security and labour protection – which are sustainable and adapted to national circumstances, including:

- the extension of social security to all, including measures to provide basic income to all in need of such protection, and adapting its scope and coverage to meet the new needs and uncertainties generated by the rapidity of technological, societal, demographic and economic changes;
- healthy and safe working conditions;
- policies in regard to wages and earnings, hours and other conditions of work, designed to ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection”.

The UN Economic and Social Council in 2008 similarly gives priority to building and extending basic social protection systems. 23

35. With the poorest in developing countries hit hardest by rises in food prices, international efforts should concentrate on improving the productivity and returns of small farmers and landless labourers in developing countries. This would ease shortages and raise the incomes of some of the world’s poorest families. The ILO’s 2008 ILC resolution and conclusions concerning the promotion of rural employment for poverty reduction constitute a comprehensive basis for the development of an ILO strategy on rural employment for poverty reduction in collaboration with other agencies, including the Food and Agriculture Organization (FAO). The UN Secretary-General established a Task Force on the Global Food Security Crisis in April 2008. 24 Its collaborative programme is of vital importance both for protecting the most vulnerable and for building a sustainable recovery through increased investment in production and poverty-reducing rural development. This

23 The Council endorsed a resolution by its Commission on Social Development on promoting full employment and decent work for all which urged “[g]overnments, with the cooperation of relevant entities, to develop systems of social protection and to extend or broaden, as appropriate, their effectiveness and coverage including for workers in the informal economy, recognizing the need for social protection systems to provide social security and support labour market participation; invite[d] the International Labour Organization to strengthen its social protection strategies, and policies on extending social security coverage; and also urge[d] Governments, while taking account of national circumstances, to focus on the needs of those living in, or vulnerable to, poverty and give particular consideration to universal access to basic social security systems;” and invited “the International Labour Organization to continue to assist States, as appropriate and upon request, in the strengthening of their social protection strategies and policies on extending social security coverage”.

24 See http://un.org/issues/food/taskforce/.
is urgently needed to ensure that increases in food demand and supply are better matched and contribute to the MDG of halving the proportion of people who suffer from hunger by 2015. An issue of strategic importance for shaping a fair globalization, along with extending basic social protection systems, is the establishment of a comprehensive international policy on food and agriculture linked to more integrated rural development strategies.

Migration for work

36. Global migration is mainly a labour market issue. The ILO tentatively estimated that economically active migrants numbered some 94 million in 2005 and, with their families, accounted for almost 90 per cent of total international migrants estimated at 191 million in 2005. Just over one in ten of the population of OECD countries was foreign-born in 2006, an 18 per cent increase compared to 2000. Around 4 million people emigrated to OECD countries in 2006 on a permanent-type basis, an increase of 5 per cent on 2005, and of that number the United States received about 1.3 million migrants. Remittances by migrant workers are a major source of income for families in a number of developing countries. In 2006, remittance flows amounted to over 12 per cent of the Philippines’ GDP, 8 per cent for Bangladesh and over 10 per cent for several Central American countries. Slowdown in some of the major migrant worker-receiving countries could seriously damage both family finances and national accounts in many sending countries.

37. Migrant workers include two major categories: highly skilled, much sought after workers, who are usually able to obtain the necessary papers to live and work in the host country; and the unskilled, who are often equally in demand but for low-status/low-paid jobs that few nationals want to do. The unskilled often have difficulty in obtaining visas and work permits. Information obtained from regularization programmes and other sources suggests that 10 to 15 per cent of migrants are irregular. Both developing and developed countries have irregular migrant workers. At the worst extreme are irregular workers who have fallen into the hands of traffickers who convey them across borders; according to ILO estimates, such workers numbered 2.45 million in 2004. Of these, about 43 per cent were destined for commercial sexual exploitation and one third for economic exploitation. Of those trafficked for sexual exploitation, 98 per cent were women and girls.

38. While working-age populations in developing countries are growing at 2 per cent a year, bringing large numbers of new young people onto the labour market, those of industrial countries are more or less stable and the profile of the workforce is ageing. International migration is therefore likely to continue to grow over the next ten years, unless a more even and sustainable path of world development emerges. Recession may increase the tensions that surround migration.


Towards decent work in a sustainable, low-carbon world

39. The Working Party at its November 2007 meeting had an extensive discussion on “Decent work for sustainable development – The challenge of climate change”, and the Committee on Employment and Social Policy will review a paper on the employment and labour market implications of climate change at its November 2008 meeting. In addition, the ILO, together with the United Nations Environment Programme (UNEP), the International Trade Union Confederation (ITUC) and the International Organisation of Employers (IOE), published an extensive report on the issue of green jobs in September 2008. Building into the ILO’s work the need to prepare for economies and societies that emit reduced levels of greenhouse gases, or at least lower levels than they would in a “business as usual” scenario, is essential, as is the need for environmental strategists to anticipate the employment effects of policy initiatives.

40. Energy policies are therefore a key influence on prospects for an environmentally, as well as economically and socially, sustainable development trajectory. Around 2.64 billion people, 40 per cent of the world’s population, lack modern fuels for cooking and heating and 1.6 billion have no access to electricity, three-quarters of that number living in rural areas. As the ILO/UNEP/ITUC/IOE report demonstrates, there is considerable scope for creating decent work opportunities in meeting energy needs in a sustainable way. Translating that potential into reality will, however, require increased policy dialogue between energy policy-makers and ILO constituents nationally and perhaps internationally.

41. The 2008 surge in energy prices has further highlighted the dependence of current production systems on fossil fuels and the importance of international action to power development in more sustainable ways. The International Energy Agency’s (IEA) 2007 World Energy Outlook forecasts that, unless energy policies change, the world’s primary energy needs will grow by 55 per cent between 2005 and 2030, an average annual rate of 1.8 per cent. According to this scenario, fossil fuels, mainly oil and coal, would remain the dominant source of primary energy, accounting for 84 per cent of the overall increase in demand between 2005 and 2030. Coal use would increase, particularly in China and India.

42. This extrapolation of recent trends in energy supply and demand would not allow the goals for greenhouse gas emissions currently being discussed under the UN Framework Convention on Climate Change to be met without major technological developments in the fields of carbon capture and sequestration. However, alternative energy strategies are available. The Intergovernmental Panel on Climate Change (IPCC) has concluded that a wide range of mitigation options is currently available or projected to be available by 2030 in all sectors, and could offset the projected growth of global emissions or reduce emissions to below current levels by 2030. The IEA, in a report on the prospects for renewable energy, concludes that 50 per cent of global electricity supplies must come from renewable energy by 2050 if CO2 emissions are to be halved by that date, as required by climate stabilization scenarios. Some countries have also started to reconsider their position on nuclear power.

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43. As the recent ILO/UNEP/ITUC/IOE report argues, energy conservation and investment in renewables such as wind and solar power have considerable potential for reducing energy demand as well as for creating decent work. Infrastructure investments to protect against extreme weather events and reduce greenhouse gas emissions could form part of measures to counter the recession in what has been dubbed a “Green New Deal”.

The world of work and the governance of globalization

44. As the World Commission on the Social Dimension of Globalization concluded, “We judge that the problems we have identified are not due to globalization as such but to deficiencies in its governance. Global markets have grown rapidly without the parallel development of economic and social institutions necessary for their smooth and equitable functioning”. Moving onto a trajectory for economically, socially, environmentally and politically sustainable development calls for improved governance at national, regional and global levels. The Decent Work Agenda, endorsed by the UN and many other bodies, could become an important component of more balanced policies for a fair globalization. High-level discussions on international responses to the crisis and reforms to the international financial system offer an opportunity to construct a new multilateralism.

45. The 2008 Declaration addresses some of the key questions of the interrelationship between national and international action for shared objectives around which discussion of a new multilateralism could revolve. It introduces significant innovations in ILO governance to connect the supportive actions that the Organization can provide more effectively to national commitments to the goal of decent work objectives. It envisages several new means of further stimulating coordinated collective action on an agreed agenda for the promotion of decent work. Among the main elements of the new approach envisaged by the Declaration are:

- better understanding the diverse realities and needs of Members regarding the four strategic objectives of the Decent Work Agenda so as to coordinate action more efficiently;
- strengthening and streamlining technical cooperation and expert advice through country programmes and within the framework of the United Nations system and supporting the institutional capacity of governments and social partners;
- promoting shared knowledge and understanding of the synergies between the decent work strategic objectives through discussions with countries about their experience in responding to the opportunities and challenges of globalization;
- assisting Members who wish to promote strategic objectives jointly within the framework of bilateral or multilateral agreements;
- developing new partnerships with non-state entities and economic actors, such as multinational enterprises and trade unions operating at the global sectoral level;
- action by member States to contribute, through their social and economic policies, to the realization of a global and integrated strategy for the implementation of the Decent Work Agenda’s strategic objectives;

31 A fair globalization: Creating opportunities for all, synopsis, p. ix.
46. Most other international organizations face similar challenges in finding effective mechanisms for supporting member States in pursuit of commonly agreed goals and facilitating the coordination of actions that could yield important mutual benefits. In addition, the 2008 Declaration affirms that the four strategic objectives are inseparable, interrelated and mutually supportive, and that in order to optimize their impact, efforts to promote them should be part of an ILO global and integrated strategy for decent work. The 2008 Declaration also stresses that “[o]ther international and regional organizations with mandates in closely related fields can have an important contribution to make to the implementation of the integrated approach. The ILO should invite them to promote decent work, bearing in mind that each agency will have full control of its mandate. As trade and financial market policy both affect employment, it is the ILO’s role to evaluate those employment effects to achieve its aim of placing employment at the heart of economic policies.”

47. This provision of the 2008 Declaration draws attention to the issue of policy coherence at the international and national levels. Most issues of public policy are determined within the framework of national political systems in which governmental responsibilities are divided up between separate ministries and ministers accountable to the Head of State or Government, to the legislature and, ultimately, to the electorate. The authority of international organizations is derived from the legitimacy of the national representatives who are delegated by States to represent them.

48. In a globalizing and increasingly interdependent world, improving policy coherence thus depends on connecting the mechanisms for national actions to the processes of identifying mutually advantageous policies internationally, and vice versa. The urgency of addressing these complex and sensitive issues is heightened by the dramatic collapse of credit in international financial markets and the importance of coordinating both emergency short-term measures and medium- to longer-term strategies for recovery, sustainable development and fair globalization. The ILO is acutely aware of the significance of these challenges because its mandate of seeking social justice for a fair globalization through the implementation of the Decent Work Agenda connects to several key issues facing the international community and to the mandates of other organizations.

49. The Working Party on the Social Dimension of Globalization has proved itself to be a suitable space for dialogue on issues of policy coherence and may therefore wish to consider how it could usefully facilitate discussions around the topics examined in this paper or other topics that members may wish to suggest. Should the Working Party find such an approach useful, the Office could, in consultation with the Officers of the Working Party, prepare the agendas for forthcoming meetings, including invitations to guest speakers and the preparation of discussion papers.


Submitted for information.

32 2008 Declaration, section II, C.
Appendix

Sustainable recovery and shaping a fair globalization

Statement by Mr Juan Somavia, Director-General of the International Labour Office, to the International Monetary and Finance Committee and Development Committee, Washington, DC, 10–11 October 2008

Summary

The crisis of the international financial system has grave consequences for enterprises, workers and families around the world. Coming on top of still high food and fuel prices, its effects are provoking a slide into a recession that, unless averted by prompt and coordinated government actions, could be severe, long lasting and global.

We have abruptly moved from an era of changes to a change of era.

Today global action has four key elements.

First, the immediate priority is to get credit flowing again quickly through continued coordinated action by monetary authorities before more serious damage is done to the productive capacity and social fabric all around the world.

Second, we need to put a floor under the slide into recession, not only by emergency measures to rescue banks and finance companies, but also by:

- maintaining and enhancing social protection systems to support working women and men and their families who are now suffering job and income losses as a result of a crisis for which they had no responsibility;
- ensuring that productive enterprises, and, in particular, small businesses which employ a large share of the workforce in all countries, are able to access affordable credit lines, avoid layoffs and wage cuts and prepare for recovery; and
- official development assistance (ODA) to the least developed countries so that they are also able to protect the most vulnerable people and enterprises.

Third, we must start rebuilding the regulatory regime for global finance markets to reduce chronic volatility and instability. Money must work for people. The foundation of a new regime for market economies is the old ethic that good hard work deserves a fair reward. Our financial systems must support, not undermine, fairness in society and the importance of sustainable enterprises and decent and productive work to stable, peaceful communities. We need financial policies that promote productive investment, restrain speculative behaviour, ensure transparency and rebuild credibility in the system. In an open international system, the quality of national banks and other financial institutions’ practices and instruments should be subject to international standards of supervision. The surveillance mechanism of the IMF must apply with equal weight to big and powerful nations as well as smaller and weaker countries.

Fourth, we must move from recovery to sustainable development. This will require a new governance framework to support a fair globalization providing opportunities for all. We need to start the world economy down a path to sustainable economic, social and environmental development – with low-carbon, employment-intensive, poverty-reducing
strategies. That will require a new balanced combination of smart regulation and intelligent public policy, responsible innovation and creativity of the market, inclusive societies and a focus on Decent Work as the key to a decent life.

We were in a crisis before the financial crisis erupted. It is a crisis of continuing, and now increasing, massive poverty worldwide and growing social inequalities in industrialized, emerging and developing countries. An effective and coordinated effort to address the immediate financial crisis must be a first step towards increased cooperation and coherence in global policy-making. We need to construct a new stronger international institutional architecture that fosters a balanced and integrated approach to sustainable development. Developing integrated policies among relevant international organizations to generate Decent Work opportunities worldwide is one of the foundations of a sustainable recovery and a fair globalization.

The ILO represents the world of work constituency in the multilateral system, actors of the real economy – employers, workers and the employment, labour and social functions of governments. Their needs and their experience must be reflected in the task ahead.1

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I. Restoring trust in the international financial system

The credit freeze within the international financial system has grave consequences for employers and workers around the world. Coming on top of still high food and fuel prices, its effects are provoking a slide into a recession that unless averted by prompt and coordinated government actions could be severe, long lasting and global. Already businesses are not able to function normally and are being forced to lay off workers. Trust in the banking and financial system must be rapidly restored.

Now the immediate priority is to get credit flowing again quickly before more serious damage is done to the productive capacity and social fabric of countries all around the world. Smaller businesses and more vulnerable workers with least assets to fall back on will be hit hardest and will find it most difficult to recover. It is particularly important that smaller businesses, the backbone of the real economy in the developing as well as the developed world, are able to access credit lines and other financial services in the normal way. The shock waves of the credit freeze are spreading through the advanced economies but are already hitting many developing countries.

II. Placing a floor under the downswing

We know from past experiences that severe financial crises cause economic recessions that are extremely costly in human, social and economic terms. There is every reason to believe that the looming recession we now face could be particularly severe unless we react quickly to block the channels by which it spreads to hit the lives of the most vulnerable people and enterprises.

1 In October 2007, I argued in my statement to the IMFC for “a balanced policy to regulate the impact on the productive economy and sustainable enterprises of highly leveraged debt instruments and non-transparent ownership vehicles”. At this year’s spring meeting we stressed that “imbalances in financial markets are related to wider disequilibria in society and in the process of globalization. Averting the risk of a major global slowdown and ensuring recovery to a sustainable global development path thus requires coherent policy action within and between countries across several policy fields, including finance and investment, trade, employment and social affairs and environment”.

While attention is focused on rescuing banks and finance companies with massive injections of public money, it is equally vital that systems of social protection are maintained and enhanced. Those who had no responsibility for the crisis but are now and in the near future suffering job and income loss must be supported. As the IMF has said in its World Economic Outlook, automatic fiscal stabilizers help to place a floor under a downturn. Unemployment insurance systems not only give time for working women and men to seek a new job, they also serve to maintain an adequate level of consumption and thus support business sales. The importance of a strong public social security system is now thrown into sharp relief by the difficulties facing private pension schemes as stock markets tumble. Just when retirees need their savings most they vanish. Attention needs to be given to ways to protect pensions from catastrophic declines in the value of funds.

Small enterprises are most vulnerable in a recession especially one induced by a credit freeze. Access to affordable credit is vital if large numbers of small businesses are not to be pushed into bankruptcy with severe effects on jobs and incomes.

Public infrastructure investments should be brought forward and designed to ensure maximum employment opportunities and contribute to lower greenhouse gas emissions. The access of local authorities to credit markets must be supported where necessary by central governments.

In the developing world more and more countries are introducing various types of employment guarantee schemes which, by offering work to informal economy workers, help maintain local economic activity and contribute to building essential infrastructure such as roads or irrigation and drainage canals. In most of the developing world where unemployment schemes are weak or non-existent such schemes are vital to the working poor and their families hit first by food and fuel price rises and now by the threat of economic slowdown.

Basic pensions and child support are also effective means of getting vital cash into the poorest communities and together with basic health-care schemes have a direct impact on poverty, preventing for example the resurgence of child labour that has been a feature of past crises. As the World Bank has stressed in its report on rising food and fuel prices, building and extending basic social protection systems is a neglected element in our poverty prevention and reduction strategies. They are policies that enable people to become productive and start working out of poverty.

ODA is a potentially vital global fiscal stabilizer for least developed countries in particular. Achieving the global aid flows goals set five years ago in Monterrey is increasingly important to preventing a slowdown sliding into a damaging world recession that would set back progress on poverty reduction dramatically. Just meeting the Gleneagles commitment for increased ODA by 2010 has a price tag of US$22 billion, a fraction of recent bank bailouts. The World Bank estimates that 100 million people have fallen back below the $1 a day poverty line and the billions living in poverty are seeing their inadequate purchasing power eaten away by price increases.

III. Redesigning the financial system

Recovery from the recession that the financial collapse is causing must rest on sound and broad foundations. The most dramatic financial crisis in 80 years calls for rebuilding the regulations that govern capital markets. I welcome the proposal of IMF Managing Director Dominique Strauss-Kahn that this year’s annual meetings should commence a process of reform of the global financial system to ensure that financial institutions and markets are properly regulated.
Self-regulation of finance markets has failed. We need smart regulation and intelligent public policies. Decisions about when, whether and how much to regulate, or deregulate markets are about the use of a policy tool. When deregulation is regarded as always the best policy in all circumstances it becomes an ideology, not a tool.

The foundation of market economies is the ethic that good hard work deserves a fair reward. Salaries and rewards to the finance sector have become grossly inflated and unrelated to the productivity of the real economy. Bringing reward systems back into the range of normality is part of the rebuilding of public confidence in the financial system. Our financial systems must support, not undermine, fairness in society and the importance of sustainable enterprises and decent and productive work to stable, peaceful communities.

Markets without ethics are destructive and dangerous. Transparency, public oversight and good regulations can help to ensure that ethical values are not forgotten but we also expect leaders in business and finance to follow a moral compass. It is evident that many have thrown that compass overboard and are now rightly being heavily criticized for their behaviour.

It is vital that regulations, or the lack of regulations, concerning mortgage lending practices and the way in which derivative instruments pass on and disguise risks are reconsidered, but it is equally important to ensure that disposable incomes keep pace with the growth of productivity, or, in ILO language, that workers have a fair share of the wealth they have contributed to create.

The risk of high volatility is systemic and requires a systemic response. In an open international system, the quality of national banks and other financial institutions’ practices and instruments should be subject to international standards of supervision. The surveillance mechanism of the fund must apply with equal weight to big and powerful nations as well as smaller and weaker countries. The world’s main international reserve currency cannot be unaccountable to other countries through the world’s primary financial forums.

IV. A new governance framework for sustainable development and a fair globalization

Moving from recovery to sustainable development will require a new governance framework for a fair globalization. The proximity in time and geography of the 1944 Conferences in Bretton Woods, Philadelphia and Dumbarton Oaks, which launched the IMF/World Bank, the ILO and the UN into the second half of the twentieth century, illustrated a vision of balanced economic and social policies, the promise of which was never fully achieved. The time is overdue to revisit and rebalance the international system for the twenty-first century. President Nicolas Sarkozy of France has called for global solutions that are determined within “legitimate, trusted multilateral forums”.

We must remember that we were in a crisis before the financial crisis erupted. It is a crisis of continuing massive poverty worldwide and growing social inequalities in advanced, emerging and developing countries. As IMF and other research has shown, labour shares in national income are falling in a large number of countries – developed and developing – and this is not unrelated to the difficulty of affording the mortgage payments on a modest family home.

It is time we reasserted the primacy of human beings at work. As the ILO’s Constitution reminds us, “Labour is not a commodity”. We need a system and rules that reward and encourage investment in productive enterprises, skilled workforces and cohesive communities in the long term, without the constant, destructive and illogical pressure of financial markets for very high short-term returns.
The increasing political questioning of the current globalization has its roots in imbalances in the relationship between the State, the market, society and individuals. A sound and stable governance structure for globalization needs to establish a new balance. In recent decades we have undervalued the role of the State, overvalued the market, failed to listen to the democratic expressions of social concerns and neglected the needs of too many individuals, families and communities for a decent quality of life. As the World Commission on the Social Dimension of Globalization said in their 2004 report, \(^2\) “there are deep-seated and persistent imbalances in the current workings of the global economy, which are ethically unacceptable and politically unsustainable”.

The first Gallup Global Poll, on the basis of surveys in 100 countries, concluded that “What the whole world wants is a good job”. The Chief Executive Officer of Gallup, Jim Cullen, draws the conclusion that “The leaders of countries and cities must make creating good jobs their number one mission and primary purpose because securing good jobs is becoming the new currency for leadership. Everything leaders do must consider this new global state of mind, lest they put their cities and countries at risk”. \(^3\)

This is not news to political leaders who know that they have to answer the popular demand for more and better jobs at every election. The ILO’s Decent Work Agenda has received wide support, repeatedly expressed at global and regional levels, and the endorsement by Heads of State and Government at the 2005 World Summit of the United Nations who made fair globalization and the goals of full and productive employment and Decent Work for all, central objectives of their relevant national and international policies.

We need to plan for a low-carbon, employment-intensive, poverty-reducing growth path for the global economy. \(^4\) That will require a new balanced combination of smart regulation and intelligent public policy, the responsible innovation and creativity of sustainable enterprises in the market, inclusive societies and a focus on Decent Work as the key to a decent life.

A global movement for Decent Work and a decent life was born on 7 October 2008 when the first World Day for Decent Work mobilized in more than 100 countries. It unites the traditional labour movement with many civil society organizations and a wide range of political parties. I forecast we will hear more about this movement.

Making money work for people will require placing the goal of full and productive employment and Decent Work at the heart of economic and social development. This year at the ILO’s annual Conference, a landmark Declaration on Social Justice for a Fair Globalization initiated a process of reform at the ILO which aims to improve the Organization’s capacity to assist its constituents in the era of globalization. Amongst other things, it invites the ILO to work with other international and regional organizations with mandates in closely related fields to promote Decent Work. It highlights the importance of trade and financial market policy and defines the ILO’s role in evaluating their employment effects to achieve its aim of placing employment at the heart of economic policies.


Developing a new, stronger international institutional architecture that fosters a balanced and integrated approach to sustainable development can, and must, emerge from the present crisis. Developing integrated policies among relevant international organizations to generate Decent Work opportunities worldwide is one of the foundations of a sustainable recovery and a fair globalization.