



SEVENTEENTH ITEM ON THE AGENDA

**Report of the Working Party on the  
Social Dimension of Globalization**

**Oral report by the Chairperson of the  
Working Party, H.E. Mr Z. Rapacki,  
Government delegate of Poland**

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1. The Working Party on the Social Dimension of Globalization met on 17 November 2008. H.E. Mr Z. Rapacki (Government, Poland) chaired the meeting. Mr Daniel Funes de Rioja (Employer) and Sir Roy Trotman (Worker) were the Vice-Chairpersons.

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

2. The Working Party had before it a paper entitled “Shaping a fair globalization: Perspectives and prospects for the Decent Work Agenda”.<sup>1</sup> Mr Angel Gurría, Secretary-General of the Organisation for Economic Co-operation and Development (OECD), had come to address the Working Party, and the Director-General of the ILO, Mr Juan Somavia, opened the debate. Mr Somavia welcomed Mr Gurría and introduced the paper before the Working Party. He remarked that the OECD’s mandate, as expressed in the first article of its founding Convention, demonstrated the similarities between the OECD and the ILO within the multilateral system. The OECD’s close engagement with the Trade Union Advisory Committee (TUAC) and the Business and Industry Advisory Committee made it the closest of all the international agencies to the ILO and, on that basis, the OECD and the ILO had developed fruitful and important areas of cooperation.
3. The Director-General observed that there were severe social and economic impacts of the financial crisis. He expressed great concern about increasing poverty as a result of high food and fuel prices, as workers were being pushed into the informal economy, and about families who feared for the future of their houses, pensions, unemployment benefits and access to health care. Restoring people’s trust in governance – national and global – was essential, and that was why the declaration adopted by the leaders of the Group of Twenty (G20) on 15 November 2008 was welcome. The declaration emphasized the role of cooperation for tightening regulations in the financial system, as suggested by the World Commission on the Social Dimension of Globalization. In that regard, coherence between financial, trade, social, labour and enterprise, and environmental policies was needed.
4. Emphasizing the importance of the Decent Work Agenda for overcoming the crisis, the Director-General stated that the priority was to ensure that the policy packages being developed to stimulate the real economy actually reached the people. The 2008 Declaration on Social Justice for a Fair Globalization enjoined the ILO to strengthen the capacity of constituents to meet the new challenges. The Director-General described ten policy measures for discussion and guidance, which were set out in a room paper:<sup>2</sup> (1) assessing the likely employment and social situation and impact of the proposed policy packages; (2) implementing active and passive labour market policies, including broadening the coverage of unemployment insurance and ensuring adequate severance payments; (3) providing support to enterprises, especially smaller firms, public investment in infrastructure and start-up credit for unemployed and displaced workers; (4) introducing targeted programmes to support vulnerable groups; (5) making full use of the relevant standards, including promoting the effective recognition of the right to collective bargaining; (6) preventing recourse to child labour as a coping strategy of vulnerable families; (7) providing training to social partners to increase their capacity to use social dialogue; (8) strengthening sectoral social dialogue at the national, regional and global levels and monitoring and addressing the impact of the crisis in the hardest-hit sectors; (9) protecting migrant workers and their families; and (10) addressing the financing of

<sup>1</sup> GB.303/WP/SDG/1.

<sup>2</sup> ILO: *Room paper on the likely impact of the financial and economic crisis and possible responses*, 303rd Session of the Governing Body, Geneva, 17 Nov. 2008.

social security funds and implementing solidarity-based basic social security schemes. He concluded by noting the need to design the foundations of a more solid and balanced international policy framework and for the ILO to play its part within a strong and responsive United Nations (UN) system, including the Bretton Woods institutions, the World Trade Organization (WTO) and the OECD. Policy alliances were needed to achieve commonly agreed international development goals. The ILO had a special contribution to make in cooperation with others, as it represented the world of work and the real economy.

5. Mr Gurría noted that he was reciprocating the Director-General's recent address to the OECD Council in Paris; a sign of the strong links between the ILO and OECD. That was extremely timely in the light of the recent G20 meeting which called for better collaboration between international organizations. Noting that the financial crisis was turning into an economic and social crisis, Mr Gurría called for urgent action to protect the most vulnerable at the same time as putting the global economy back on the path to sustainable growth. The OECD's contribution to the G20's Action Plan was twofold: first, it addressed regulations and incentives in the financial sector, including tax transparency and corporate governance; and second, it focused on restoring conditions for sustainable growth, which should be non-carbon-intensive, including fiscal stimulus, innovation and investment in human capital. It would also be necessary for governments to have exit strategies in order to disengage, if necessary, from troubled sectors.
6. Mr Gurría referred to the OECD's recent report *Growing Unequal?*<sup>3</sup> which showed that, even before the crisis, there was growing inequality in over three-quarters of OECD member States. That trend was mostly attributable to changes in labour markets. He further expressed the concern that such inequality would worsen with the current crisis and consequent unemployment. Most OECD countries had well-developed social safety nets, but questions remained as to whether they would be adequate in the face of the current crisis. Moreover, workers in developing countries often could not rely on social safety nets. There was pressure on governments to take ad hoc measures, but they should be guided by two principles: first, that the measures be timely, targeted and temporary; and second, that short-term measures should be consistent with longer term structural reforms. Despite the crisis, the challenges of an ageing population and the need to deliver good health, education and social services should not be forgotten. Mr Gurría argued that the policy guidelines of the *Reassessed OECD Jobs Strategy* of 2006 remained valid and that additional analysis would be presented in the OECD's 2009 *Employment Outlook*.
7. Areas of collaboration between the OECD and the ILO included a study on informal employment with the OECD Development Centre and joint work on corporate social responsibility. Other challenges that must not be neglected in addressing the financial crisis were climate change, migration, development aid, the Millennium Development Goals (MDGs), and the need to conclude the Doha Development Agreement. The four pillars of the ILO's Decent Work Agenda had been important before the crisis, but were all the more so in the face of the crisis, as was the ILO's emphasis on the social dimensions of globalization. Noting the depth and breadth of the crisis, Mr Gurría expressed his support for the ten policy measures put forth by the Director-General and stated that the ILO was very well equipped to contribute in those respects.
8. The Employer-Vice Chairperson said that the Employers' group was convinced of the seriousness of the current crisis as well as of the need for a joint international effort to cope with its consequences. He noted the collaboration between the OECD and the ILO and stressed that two of the issues mentioned by Mr Gurría were key concerns for the Employers, namely the informal economy and migration. In his view, the ILO should

<sup>3</sup> Organisation for Economic Co-operation and Development: *Growing Unequal? Income Distribution and Poverty in OECD Countries*. Paris, OECD Publishing, Oct. 2008.

position itself as the response agency for the impact of the financial crisis – as a “Red Cross” for immediate intervention – and take the lead as a UN frontline agency to get labour markets to work again. He warned against rushing to draw conclusions from the crisis. In the current climate, there was a real danger of deciding that the policy choices adopted over the previous years were wrong, when that was clearly not the case. The crisis did not mean the end of private enterprise, capitalism or globalization. The impact of the crisis would be felt most severely by small enterprises and the main protection that those enterprises and their workers needed was the security of economies remaining open to trade.

9. Governments should resist the temptation of a quick fix through heavy re-regulation and avoid a return to the poor policies of the past, such as populist short-term measures that looked attractive but were neither sustainable nor productive. Priority areas for intervention were the promotion of entrepreneurship and skills development; social dialogue and social safety nets; sound macroeconomic fiscal policies; and well-planned and tested regulatory frameworks. Faced with the global crisis, the ILO should respond as a collective entity and focus on its strengths. He suggested some guiding principles that the Office could follow: in consultation with constituents, it was necessary to evaluate the effects of past ILO action during earlier crises; activities should respect the mandate of the Organization and use existing ILO policy tools; and any programme should have a proper regional dimension. The Employers’ group called upon the Office to organize a meeting with executive directors, regional directors and the groups to ascertain the regional and sectoral dimensions of the crisis.
10. The ILO’s response should build upon a few key issues: active labour market policies for retrenchment and retraining; staff retention mechanisms to mitigate job losses where possible; employment-intensive investments in infrastructure; dialogue with the World Bank, the International Monetary Fund (IMF), regional development banks and the OECD over labour market needs and rescue packages; promotion of the 1998 Declaration on Fundamental Principles and Rights at Work to avoid regression of such principles and rights; financial support for small and medium-sized enterprises (SMEs); support to financial institutions lending to companies; and a meeting of labour and finance ministers to follow the recent G20 meeting.
11. The Employers’ group called upon the Office to develop, through its Employment Sector, a comprehensive programme of action to respond to the impact of the financial crisis on the labour market. It should be based on four pillars. First, it should utilize the existing Strategic Policy Framework and rely on the Global Employment Agenda (GEA) and the International Labour Conference resolution on the promotion of sustainable enterprises. Second, it should have real-time impact and be grounded in solid analysis. Third, it should organize a follow-up to the 2001 Global Employment Forum and use the GEA and the sustainable enterprise frameworks as platforms to mobilize partners. Fourth, to have immediate impact, governments and social partners needed immediate and practical assistance. Therefore, it should meet a number of tests and focus on areas where the ILO had a comparative advantage by virtue of its mandate; be achievable, time-bound, measurable and supported by sufficient human and financial resources; facilitate partnership with other agencies and organizations; help constituents shape national policy choices and promote tripartite dialogue; and identify ILO tools to be used and gaps and synergies with other organizations. In uncertain times, governments, businesses and trade union leaders had a special responsibility to avoid panic, to work collectively and to restore confidence in the economy.

12. The Worker Vice-Chairperson noted that the causes of the current economic crisis stemmed from neo-liberal economic prescriptions and the so-called Washington Consensus that had replaced the highly respected “basic needs” strategy that the ILO had championed in the 1970s. In responding to the crisis, the Workers’ group proposed action on four fronts in order to: (1) stem the drift into recession; (2) stabilize financial markets; (3) build a new system of global socio-economic governance; and (4) contribute towards a new development paradigm.
13. In respect of the first point, a coordinated global recovery plan was required and should include a global stimulus targeted at low- and middle-income families; employment-intensive infrastructure projects; extension of social protection to the working poor; renewed emphasis on collective bargaining to redress real wage declines and increasing inequality; measures to deal with rising food prices and the housing market; and support for the ILO and the United Nations Environment Programme (UNEP) “Green New Deal” policies. To stabilize financial markets, the Workers’ group called for greater international cooperation and oversight of financial markets; a mandate for central banks to deter speculative financial bubbles; regulation addressing the relationship between commercial and investment banks’ activities; tight regulation of rating agencies and hedge funds; a new international tax regime to discourage speculative investments; and curtailment of the derivatives market.
14. To create a new system of global socio-economic governance, the Workers’ group suggested a reformed mandate for the international financial institutions (IFIs) that promoted policy coherence with the ILO; voting power parity between developing and industrialized countries within the World Bank; replacement of traditional conditionality within the IFIs with country ownership involving representative civil society organizations; an end to the promotion of deregulation through publications like the World Bank’s *Doing Business* report; and participation of representative workers’ and employers’ organizations in a new IFI governance system. The new development paradigm should have decent work at its centre and include an integrated approach to sustainable human development; a new role for the State in regulation and intervention that created decent work for all; policies to promote income redistribution and reduce income inequalities; the right to social protection for all; stronger tripartism and social dialogue based on full respect for the fundamental rights of freedom of association and the right to bargain collectively at international and national levels; and renewed emphasis on international labour standards.
15. The abovementioned proposals had major implications for the ILO, which would have to become a proactive participant in discussions about the crisis and promote policy advice in different fields. Those included macroeconomic policy consistent with the GEA; collective bargaining and social dialogue to reduce wage inequalities; extension of social protection systems for all; and strengthening of the role of standards and regulation of the labour market. The Working Party was also addressed by the TUAC General Secretary. Referring to a series of meetings in Washington between trade union leaders and participants at the G20 summit, he highlighted the growing anger of working people over the serious losses they were incurring, while bail-outs were going to financial institutions. Unions expected the tripartite ILO to be the voice of the real economy in discussions about new forms of financial regulation. He also highlighted the extent of inequality, documented in ILO and OECD reports, and the importance of not cutting back on wages and social benefits or restricting workers’ rights. He called for an updating of the existing Memorandum of Understanding between the ILO and the OECD, which should include a plan of how the two organizations could work together in the current economic environment.

16. Quoting the statement of the Indian Prime Minister at the G20 summit, the representative of the Government of India said that the slowing of growth in developing countries would push millions of people back into poverty, with adverse effects on nutrition, health and education levels; those were not transient but would impact a full generation. India was relatively sheltered, but the impact remained quite serious. Several steps had been taken to avoid retrenchments and ensure growth and financial stability while protecting the most vulnerable. In her view, the Decent Work Agenda had special relevance for all developing economies as it provided a holistic framework for shaping policies. Policy coherence and team work among government departments and international organizations were needed and development assistance for decent work-related issues should be expanded. She argued that global markets needed a moral compass, with human beings and human dignity at the centre of economic and social policies. Attitudes towards globalization had begun to change becoming more positive in recent years. It would be a great pity if that growing support for open policies in the developing world was weakened because of a failure to protect developing countries from a recession which was not of their making. A new balanced combination of intelligent regulation and public policy should pave the way forward to a decent life. It was essential to act to restore trust in the international financial system, redesign the global regulatory framework, put in place automatic financial risk stabilizers and evolve a new governance framework for sustainable development and a fair globalization.
17. Taking the floor in the name of the Group of Latin America and Caribbean States (GRULAC), the representative of the Government of Brazil recognized that the document provided by the Office covered topics discussed in Washington by the G20, namely finance, trade, pro-employment policies and the protection of the environment. She recalled that the Group had alerted the Governing Body to the potential effects of the slowdown in the advanced economies on the socio-economic progress in their region during its last session. Since then, the Group had been working on the assumption that an appropriate regulatory system of financial markets, coupled with coordinated macroeconomic policies at international level, could help them face up to the consequences of the financial crisis. A new regulatory framework should be aimed at re-establishing trust, and the new global architecture should integrate the social, economic and environmental dimensions of development. Greater regional integration and international trade could be engines of growth that were compatible with the economic and social gains registered so far in the region. Due to policies adopted in the region in the areas of social development, job creation, health and education, GRULAC countries had, so far, been better equipped to counter the effects of the crisis, but uncertainty about the future remained.
18. Speaking on behalf of the European Union, the representative of the Government of France emphasized that the tripartite nature of the ILO made the Organization a privileged forum for discussing the consequences of, and possible responses to, the crisis. Referring to the paper before the Working Party, he highlighted the impact of the current crisis on investments, production and consumption and its potential to shatter the world economy. That constituted a real threat to the realization of decent work, particularly for the most vulnerable sections of the population. In the immediate term, reforms aimed at reinstating trust and stability in the world economy were a condition to realize fair globalization. Other priorities were the reinforcing of pro-employment policies to combat poverty through the adoption and implementation of Decent Work Country Programmes (DWCPs). Within that operational tool, centrality had to be given to occupational safety and health for workers, and to universal access to basic social protection and social dialogue as key mechanisms for policies that could lead countries out of crisis.
19. He endorsed the view expressed in the document before the Working Party and urged all member States of the ILO to contribute to the implementation of an integrated global

strategy aimed at realizing the strategic objectives of the Decent Work Agenda. A critical point was policy coherence between political, economic, trade-related, social and environmental policies at all levels, as exemplified by the European Union in its Consensus on Development, which had been adopted in 2005. On food security, it was felt that the international community should focus its efforts on improving productivity and wages for workers in the agricultural sector in developing countries. Finally, he stressed the importance of integrating the consequences of environmental changes into social concerns. To illustrate his point, he referred to the joint report on green jobs by the ILO, UNEP, the International Trade Union Confederation (ITUC) and the International Organisation of Employers (IOE)<sup>4</sup> which drew attention to the need for appropriate anticipatory action for employment development.

- 20.** The representative of the Government of Nigeria noted that follow-up of the ILO Declaration on Social Justice for a Fair Globalization would ensure that the four strategic objectives of Decent Work were implemented in an integrated manner to foster economic, social and environmental advancement. The Declaration was timely and critical because the deepening financial and food crises had affected globalization and were producing far-reaching shocks that were undermining past economic and social progress. Consequently, increased policy coherence between the ILO, the UN system and international organizations such as the IMF, the World Bank and the WTO was auspicious at that time. The Government of Nigeria supported programmes aimed at halting panic and preventing further disruption in financial markets as well as measures to resolve global imbalances and stimulate sound economic recovery. The speaker provided details on action recently taken by the Government of Nigeria to stimulate the domestic economy, revive the local textile industry and boost employment in the face of the global economic crisis.
- 21.** The representative of the Government of the United States noted that the global economic crisis required a coordinated global response and applauded the decisions taken by the G20 in recent days, including steps to preserve open markets and promote free trade. The ILO, by carefully utilizing its resources, could play an important role in protecting working people from the worst effects of the economic crisis. In particular, the ILO should ensure that the hard economic decisions that had to be taken did not lead to any diminution of basic worker rights, any weakening of the core protections that the ILO had advocated throughout its history, or a deterioration in health and safety provisions. Stronger labour administrations and labour inspections were required to shield workers. A key challenge would be to promote employment opportunities through skills training, entrepreneurship and other measures that promoted employment security. Attention to green jobs, rural employment and the creation of sustainable small and micro-enterprises should be high priorities. The speaker urged the Office to enhance its capacity for economic analysis to ensure its ability to perform highly credible world-class research and analysis.
- 22.** The representative of the Government of Germany agreed with other speakers that the full social and economic consequences of the global crisis were still not known, but that they could be expected to be very serious. He called for quick actions that not only focused on the financial system but, above all, aimed at avoiding a social crisis. In that respect, the Government of Germany had undertaken coordinated measures both to control the financial crisis as well as to prevent spillover into the real economy. The speaker cited the importance of improving social security systems, activating work contracts and training. He underscored that the Decent Work Agenda was particularly relevant in the current situation to ensure fair globalization. Finally, he endorsed strengthening the link between the ILO and the OECD in overcoming the crisis.

<sup>4</sup> UNEP, ILO, IOE, ITUC: *Green Jobs: Towards decent work in a sustainable low-carbon world* (UNEP, Nairobi, 2008).

23. The representative of the Government of Panama observed that the ILO Declaration on Social Justice for a Fair Globalization was the roadmap of the Organization in the future. While recognizing the virtuous effects of globalization on growth, he acknowledged that such globalization should be accompanied and guided by effective pro-employment and social development policies. Pointing out the threats of the current crisis to the economies of the region, and that of Panama in particular, he cited national measures intended to counter them, including the implementation of a DWCP. He announced additional national initiatives to that effect and added his voice to the previous speakers who had argued for the adoption of an effective regulatory system and the search for a new global financial and economic architecture.
24. At the closing of the morning session, Mr Gurría responded to comments made during the debate. In agreement with several speakers, he noted that protectionism was a temptation in the face of the crisis that needed to be avoided. Equally, there was the danger that the pendulum would swing too far with respect to regulation. He warned against countering the past tendency of excessive deregulation with heavy regulation and said that both needed to be avoided. In compiling rescue packages for financial institutions, governments were not bailing out shareholders but rightly rescuing the financial system which would eventually benefit everyone. While leaders understood the need to put people first in the context of slowing growth, it was impossible to get the economy back on a growth path unless the financial system was stabilized. Following that, attention needed to be shifted to the macroeconomic challenges and a coordinated response. Countries that were running budget surpluses before the crisis were in a much better position to provide fiscal stimulus than those with a large public debt burden. One important aspect of the recent meeting of the G20 in Washington was that the Group, initially created as a meeting of ministers of finance, met at the leadership level for the first time. In terms of international governance, that was of great consequence.
25. The representative of the Government of the Republic of Korea stated that the financial crisis seemed to prove that finance-driven globalization may not be sustainable. He supported the ILO's direction in that regard, adding four points. First, that a commitment to an open economy should be maintained and that protectionism should be rejected; second, that social safety nets needed to be expanded; third, that recovery plans needed to take into account not only efficiency but also equality and poverty; and fourth, that social dialogue had a vital role to play in the recovery process and in minimizing the social costs of the crisis.
26. The delegate of the Government of Spain observed that the only way to exit the crisis was to join forces at the international level with openness, as protectionist measures would bring collective failure. He emphasized the importance of social dialogue in that process at both the international and national levels and reiterated the critical advantages for the ILO of engaging in policy coherence dialogue, particularly with other global actors such as the WTO and the International Organization for Migration. Among a series of specific measures taken at country level to tackle the crisis, he mentioned a national declaration for employment and competitiveness signed on 21 June by all tripartite constituents whose first task was to jointly agree on measures to counter the negative effects of the crisis.
27. The representative of the Government of Japan expressed concern that the financial crisis could seriously affect global employment and worsen the lives of workers and the vulnerable. He stated that, in the process of restoring order to financial systems and domestic and global economies, efforts must be made to avoid social damage. He quoted from the Asia–Europe Meeting's Beijing Declaration on Sustainable Development from October 2008 regarding the “promotion of full and productive employment and decent work for all” and said that the ILO's role in realizing decent work would become even more important.



28. An observer of the European Commission (EC) expressed appreciation for the rich assessment made by the room paper on what was at stake for the Decent Work Agenda as a result of the crisis and in the new framework of the ILO Declaration on Social Justice for a Fair Globalization. He stressed the importance of cooperation with other international institutions and stated that the EC was ready to contribute actively, noting also that the EC's renewed social agenda, adopted in July 2008, was guided by the Decent Work Agenda. He emphasized that the strategic objectives of the Decent Work Agenda were complementary and mutually reinforcing, and that decent work could not be postponed in times of crisis, but was an indispensable component of sustainable growth. He noted that the shift to a low-carbon economy would be a key priority for the EC's employment and social policy, and that in that context there was a need to focus on skills development and that the EC's Action Plan for Recovery would present a "new skills for new jobs initiative" in the coming days.
29. The representative of the Government of China described the current international crisis as unprecedented in its breadth and the seriousness of its impact on economic development and people's lives in all countries. Employment promotion, poverty reduction, protection of workers' fundamental rights and expanding social security systems would be even tougher to achieve, yet were ever more urgent tasks for the ILO. A top priority for the international community would be to take all necessary measures, not only to stabilize financial markets and restore market confidence, but also to reduce the negative impacts of the economic slowdown on people's livelihoods. The Government of China supported international financial institutions in addressing the crisis and establishing an equal, just, inclusive and orderly financial system, but likewise urged all countries to stabilize energy and food markets, curb speculative activities and create a sound environment for economic growth. The speaker outlined the effects of the crisis on China's economy and employment and cited measures taken by the Government to maintain steady growth and generate new employment opportunities (such as infrastructure and environmental protection projects). With regard to ILO actions, the speaker suggested that the ILO should concentrate its limited resources on its mandate, urge countries and the international community to pay attention to the effects of financial policies on employment and social security, and use its expertise in helping Members to effectively deal with the employment effects of the crisis, especially on vulnerable groups and developing countries.
30. The representative of the Government of Lebanon believed that purely financial measures to address the crisis would only be palliative as they would be inadequate for resolving the problems faced by poor countries. Industrialized countries, from where the global crisis originated, must take responsibility for assisting developing countries through international cooperation. Decent work must be the top priority. Finally, he suggested that the ILO might consider a conference on the effects of the crisis on employment and investment possibilities, and strengthen the work of its regional offices in studying the labour market and employment in each region and helping constituents to identify solutions to the crisis.
31. The representative of the Government of the Bolivarian Republic of Venezuela pointed to the fact that the various responses to the crisis had so far protected and supported the initiators of the current situation, to the detriment of the victims. He concluded that the end result would be the non-attainment of the MDGs. He further pleaded for the active involvement of governments in the governance of the world financial system and the need to place human dignity and poverty reduction at the centre of the development agenda. He set out a number of significant national achievements in the fight against poverty and drew attention to forthcoming regional meetings.
32. The representative of the Government of Belgium expressed the view that the main challenge that the ILO faced would be to respond to the specific needs of the victims of the crisis within the framework of the Decent Work Agenda, while avoiding a slide into

informality. The ILO must find the right balance between the implementation of its new Declaration on Social Justice for a Fair Globalization, which remained at the centre of its mandate, and its necessary involvement in the global debate on the financial crisis. The growth registered before the crisis had not translated into jobs. The ILO needed to engage in research on the linkages between growth, employment and social inclusion. In the light of the current global context, the ILO Tripartite Declaration on Multinational Enterprises and Social Policy should seek to have a greater influence on corporate social responsibility policies and practices.

- 33.** The representative of the Government of Argentina observed that the G20 meeting had acknowledged the need for international cooperation to restore global growth, review current financial systems, boost domestic consumption, strengthen regulatory regimes, restart the Doha trade negotiations and reduce poverty. Nevertheless, he deplored the lack of due justice to poverty reduction and employment. He hoped that the Washington Declaration would lay the ground for a fairer globalization and stressed the renewed importance of the work carried out in the Working Party and in the follow-up to the ILO 2008 Declaration on Social Justice for a Fair Globalization. He welcomed and supported the joint initiatives by the ILO and the WTO on trade and the informal economy in developing countries. He finally stressed the importance of social security schemes in mitigating the effects of the crisis.
- 34.** The representative of the Government of Sudan expressed his concern that the global crisis was affecting ILO efforts to promote decent work and employment, but urged the Organization to remain focused on its agenda. He pointed out that Africa had faced many difficulties before the crisis – low economic growth, debt burden, inequality in international trade, widespread poverty, an HIV pandemic and civil wars – and appealed that they should not be ignored and that efforts aimed at addressing those long-term development problems should not be diverted by the crisis. While the G20 document was welcome, it should take into account the social dimension of globalization.
- 35.** An Employer stressed that the global financial crisis had come at a time when countries in Latin America had been experiencing an unprecedented period of economic prosperity and growth while, at the same time, a wave of political populism and economic nationalism had been emerging. Employers in the region were concerned that the deepening of support for protectionism and the nationalization of banks, pension funds and enterprises would threaten recovery and sustainable growth and development. In his view, government interventions had to be temporary and financed out of government savings or budgetary reallocation, not fiscal deficits. He looked forward to strong ILO action in Latin America, focused on strong social dialogue and technical assistance for active labour market policies, especially targeting SMEs, in cooperation with the World Bank and regional banks.
- 36.** A Worker noted that, while the current economic crisis had originated in the United States and other industrialized countries, developing countries in Africa and elsewhere had become the main victims. Even prior to the current crisis, African workers were suffering from high food prices and extreme levels of poverty. To address the economic crisis, three key reforms were required. First, fundamental changes were required to the Bretton Woods institutions and the structural adjustment policies they had imposed in the past. It was important that the ILO was fully involved in discussions about future economic and financial policies in order to give social dimensions the appropriate attention. Second, the G8 countries and other key donors had to honour their promises in respect of development assistance and debt relief. Third, African governments had to strengthen regional cooperation and reduce the influence of outside experts.

37. An Employer said that businesses and workers in Africa were used to coping with a crisis but that they were facing new, dramatic hardships. African governments were quick to listen to the recommendations of the Bretton Woods institutions, but less so to the social policy packages proposed by the ILO. He suggested that the ILO should seek greater dialogue and involvement in mainstream social policies on the agenda of the Bretton Woods institutions and regional blocks. In addition, the social partners, particularly the Workers and the Employers, should seek greater involvement in the formulation of developmental policies beyond social issues.
38. A Worker suggested that the financial crisis had already impacted on the real economy and that workers were being adversely affected. Trade unions needed to safeguard the rights and interests of those workers. To facilitate that task, employers and governments had to respect the right of workers to organize and to bargain collectively. In the current environment, it was imperative to promote the Decent Work Agenda and to strengthen the supervision of international labour standards. The economic crisis could not be used as an excuse to weaken labour standards or workers' rights. Finally, there had been a significant move of rural workers to urban centres in many emerging economies in recent years. Now, many of those workers were losing their jobs and returning to rural areas. It was important that those workers received protection, including assistance with regard to organizing themselves, the right to collective bargaining and access to social protection.
39. Speaking from an Asian perspective, an Employer remarked on the contradiction of financial entities being permitted to reap extraordinary profits, but when conditions changed, being declared too large to fail and requiring bail-outs from taxpayers. Moral hazards had to be addressed. Financial institutions, including investment banks and hedge funds, needed oversight in order to protect taxpayers' interests. The crisis had a varied impact on Asia, as was well documented in the room paper prepared by the Office. Political leaders should avoid the protectionism that had led to disaster in the 1930s. International institutions, including the ILO and other UN agencies, needed to become relevant in the face of current economic and social challenges. Governments should use the 2008 Declaration to fill the gap in economy and politics at the country level and restore a conducive environment for enterprises as they were the engine for recovery from the crisis. Furthermore, governments should promote cooperation between workers and employers.
40. The current crisis was a time to be bold and to adopt new initiatives, argued another Worker. In the past it had been said that dignity, equity and prosperity would trickle down to the workers with economic growth, but in reality that did not occur and inequality widened. Workers were now frightened and angry as many were losing their jobs, their incomes and their houses. In responding to the crisis, workers' rights and trade union voices needed to be strengthened in discussions on international trade, finance and broad economic reforms. Substantially increased investments in physical infrastructure, child care, education, health and the environment were required to boost economic growth and jobs. It was also the right time to eliminate the gender gap, increase pensions and provide young people with jobs that paid decent wages.
41. One Employer recalled paragraph 12 of the G20 declaration which referred to financial sector reforms and underlined the principles of free markets; rule of law; respect for private property; competitive markets; efficient and effectively regulated financial systems and open investment and trade policies. In her view, the most interesting aspect was how familiar those principles sounded within the ILO, since there was agreement that they were important to the creation of sustainable enterprises. At the heart of any ILO programme in response to the financial crisis should be an enabling framework for the creation of sustainable enterprises. That was also the correct approach for creating green jobs, jobs in the rural economy, and indeed jobs in general.

42. Another Worker reiterated a view expressed by others, namely that the ILO represented the real economy and the participants in the Working Party represented a wider range of countries and interests than the G20. The document before the Working Party had rightly identified shortcomings in the capitalist system and the Washington Consensus. While greater fiscal flexibility and investments in physical infrastructure, housing, social policies and the environment were urgently required in the short term, other longer term reforms had to be addressed. Many international institutions, including the OECD, had highlighted the decline in the wage share of output and the increase in speculative investments as key concerns and causes of the current crisis. Implementing decent work and strengthening the ILO had to be priorities for the time ahead. He pointed out that the G20 had called for adequate resources for international financial institutions to play their role and felt that the same should apply to the ILO. Re-regulation of the financial system to ensure it met the needs of the real economy and increased policy coherence at the international level were also key priorities.
43. An Employer, speaking on behalf of European Employers, suggested that, while the ILO could be compared to a fire brigade trying to give an immediate answer to the financial crisis, it was important to have the construction brigade building up what had been destroyed by the fire. Given its specific competence and mandate, the ILO should contribute to the reconstruction of the international order, not in financial matters, but in addressing the effects on the real economy. It was an occasion for the ILO to pass a reality test and tackle dilemmas such as the extent of labour market regulation and the low rate of ratification of a number of ILO Conventions. She called for pragmatism and respect for the specific competences and responsibilities of the different actors. An Employer, speaking on behalf of Arab Employers, stressed that the financial crisis should not lead to abandoning the capitalist system. He appealed for support to the migrant workers employed on multinational construction projects. He called upon governments to reinforce financial systems and undertake small and large programmes for employment generation.
44. Closing the discussion on behalf of the Workers' group, a Worker indicated that there appeared to be consensus on the need for the ILO to scale up its work on responses to the economic crisis. The overwhelming weight of comments had called for urgent interventions, with decent work and the 2008 Declaration at their centre. The economic crisis had come in the context of serious social and environmental challenges and the ILO needed to show the strong relationship between those elements, and work on them simultaneously. Further, wage growth had lagged behind GDP growth in many countries. That had been caused by low wages in fast-growing countries as well as by decentralized wage bargaining in some countries. That model was unbalanced and unsustainable, and represented a key structural cause of the crisis that had to be addressed. Wages were prime drivers of aggregate demand and, therefore, a wage floor had to be established to ensure a wage-led recovery component. A bold, globally coordinated effort was required to build strong collective bargaining systems, including at the sectoral level, as well as minimum wage policies.
45. The section on trade policy in the room paper before the Working Party needed to be reconsidered. The modalities that had emerged under the Doha Round were a cause of great concern for many developing countries, and it was possible to be critical of them without being protectionist. The joint study by the ILO and the WTO Secretariat on the employment effects of a possible trade package should be fast-tracked so that its results could help shed light before the Round was completed. Further, the priorities of the ILO's work needed to be altered. To date, much of the ILO work on employment had focused on supply-side issues such as skills, enterprises and microeconomic measures to promote efficiency. Now the focus should shift to the macroeconomic components of the GEA. But the starting point should be the 2008 Declaration, which incorporated an appropriate balance on sustainable public and private enterprises and the role of the social economy,

plus the need for a minimum living wage, social security for all, workers' rights and international labour standards. Commenting on the room paper, he suggested that the section on wages be improved and that policy measure 7 be reviewed and expanded. He stressed that trade unions and employers' organizations should be involved in the current reshaping of the architecture of globalization. He concluded with four proposals: that the ILO work on the economic crisis and responses be deepened; that constituents be supported in their efforts to respond to the crisis; that the multilateral system be engaged to achieve ILO goals; and that a high-level tripartite meeting be considered to develop a coherent social package prior to the March 2009 session of the Governing Body.

46. In his closing statement, the Employer Vice-Chairperson said that he agreed in principle with all the proposed policies in the room paper and looked forward to working with the Office in making them a reality. The group noted in particular the proposals under paragraphs 44 and 56. With regard to policy measure 3, the Employer Vice-Chairperson said it was aligned to the emphasis given by the Employers' group to the need for strong financial support to SMEs. Equal importance should be given to measure 2 on active labour market policies. Measures 7 and 8 well reflected the key role of social dialogue at the international and national levels in re-establishing confidence and trust. In respect of measure 4, the group strongly agreed with targeted programmes for vulnerable groups. Measure 5 should include reference to the 1998 Declaration. Regarding measure 6, work on child labour should be referred to the International Programme on the Elimination of Child Labour (IPEC), which had been highly successful. On measure 10, it was not the right time to carry out research on the financing of social protection systems, which was more a long-term issue. The group agreed on the need to look carefully into the issue of the protection of migrant work, as mentioned in measure 9. In conclusion, he expressed appreciation for the results of the discussion and looked forward to the report of the Chairperson.
47. The Director-General expressed his appreciation for the richness of the comments and ideas shared by members of the Working Party. He underscored that the differences between the positions and ideas of Employer, Worker and Government representatives were small, and that agreement was large on many areas. He stressed that, first, the discussion affirmed support for globalization, but not the current form of globalization, rather an equitable, fair and inclusive globalization. Consensus on that idea was demonstrated by the adoption of the Declaration on Social Justice for a Fair Globalization. Second, the proposals provided by members of the Working Party revolved around the Decent Work Agenda. Third, the Organization could help constituents by examining key issues, learning from past experience, drawing on good practices, and facilitating the exchange of ideas and social dialogue among constituents. Fourth, it was important for ILO constituents to assert the fact that the Organization, by virtue of its tripartite structure, represented the real economy. The Declaration on Social Justice for a Fair Globalization gave a framework for policy responses to the global crisis, and the Decent Work Agenda provided the lens through which to assess policy decisions in trade, finance, investment and so on. Fifth, the G20 process was currently limited to financial market issues. The Working Party discussion had underscored that more than a financial response was required to deal with the impacts of the crisis. In that regard, the ILO constituents had the responsibility to endeavour to expand the G20 process to include the issues raised by the Working Party. The Workers had begun doing that by convening a meeting of trade union leaders from the G20 countries. The Labour and Social Ministers and the Employers might consider doing something similar. Finally, there was a need to hit the right balance in the degree of regulation. That was a practical, not ideological, question to be discussed.
48. In concluding the first agenda item, the Chairperson noted that the discussion had highlighted the serious impacts of the crisis on the policy challenges facing the ILO constituents and the Organization as a whole. But despite the grim picture, there was

encouraging consensus among the tripartite members of the Working Party that the Organization was well-equipped and willing to contribute to mitigating the social impacts of the crisis on the real economy. The background papers submitted by the Office were valuable in that respect and he thanked the speakers for their rich and pertinent comments. Finally, he made two suggestions to the Office: (i) to continue to monitor the effects of the global economic situation and its implications for the Decent Work Agenda; and (ii) to pursue collaboration with the OECD and to inform the Working Party of the outcome of such collaboration at future meetings.

## **II. Policy Coherence Initiative: Report on recent meetings and activities**

- 49.** Following the introduction of the second agenda item, entitled “Policy Coherence Initiative: Report on recent meetings and activities”,<sup>5</sup> the Committee agreed that, given the late hour, the Chairperson could receive the written statements of three delegates which would be summarized in his oral report, with a view to discussion in the Working Party as appropriate in the future.
- 50.** The Employer Vice-Chairperson believed that the ILO should promote policy coherence at the international level. In that respect, five elements had to be taken into account: (i) each organization had its own unique mandate and consequent comparative strengths; (ii) the different views, approaches and constituencies of each organization had to be respected; (iii) policy coherence should facilitate collaboration, not competition; (iv) collaboration should focus on areas where it would provide greater impact than individual agency efforts; and (v) policy coherence should not seek to force any given agency’s agenda onto others. While it was not realistic to use the Policy Coherence Initiative on Growth, Investment and Employment (PCI) as a platform to bring about policy convergence among different agencies, the ILO could make a most useful contribution to the work of other agencies in providing insights into, and analysis of, labour market policies and institutions through its direct connections to the workplace via its constituents. The Employers’ group called upon the Office to prioritize inter-agency collaboration on the need to address the lack of reliable employment and labour market data, particularly for developing countries and for workers in the informal economy.
- 51.** The Worker Vice-Chairperson was highly supportive of all initiatives to promote policy coherence in the multilateral system. He commended a former ILO official, Mr Rolph van der Hoeven, for ably conducting previous PCI meetings and suggesting ways of making the meetings even more effective. He recalled that action-oriented policy discussion was the original intent of the PCI. It was important to renew encouragement to all participating institutions to be willing to engage in their policy approaches and practices, not only in the research projects as was reported in the Office paper. The Workers’ group hoped that the following PCI meeting could focus on the new approaches by the World Bank to the reform of labour market regulation, as the ITUC had suggested. The group expressed its support for the efforts to translate the discussion among experts into concrete coherence initiatives at the national level. That was a way to promote the ILO’s integrated Decent Work Agenda in line with the 2008 Declaration. For that reason, they requested national trade union centres and all ILO units, in particular the Bureau for Workers’ Activities, to be associated with the future work of the PCI.

<sup>5</sup> GB.303/WP/SDG/2.

52. The statement of the representative of the Government of France, prepared on behalf of the European Union, highlighted the relevance of the ILO's work on the PCI and encouraged the Office to develop it further in line with the Declaration on Social Justice for a Fair Globalization. The European Union underlined the need to focus on specific issues and strongly supported efforts to gather reliable employment and labour market data, especially in developing countries. Collaboration among international organizations on more coherent national policies was another priority. In that respect, the United Nations System Chief Executives Board for Coordination could play a crucial role in promoting and monitoring the implementation of the Decent Work Agenda. The need for coherence was particularly relevant in the light of the recent global financial turmoil and rising food prices. The European Union looked forward to the outcomes of the studies and technical meetings planned under the PCI.

Geneva, 19 November 2008.

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## **303rd Session of the Governing Body of the International Labour Office**

(November 2008)

### **Room paper on the likely impact of the financial and economic crisis and possible responses**

#### **Introduction**

1. This paper provides a rapid preliminary assessment of the likely impact of the unfolding financial and economic crisis and suggests a number of policy responses for countries and measures for the Office. The paper is organized into six sections, providing: (1) a rapid preliminary overview of the impact of the crisis in the regions; (2) selected examples of measures taken by countries; (3) a summary of the action taken by the ILO by early November 2008; (4) an outline of policy response options that countries might consider; (5) a summary of the challenges to global governance arrangements; and (6) possible responses to the crisis by the ILO through the first half of 2009.
2. This paper is the result of the effort of a large number of ILO staff and draws on their knowledge and networks across ILO Members.

#### **1. Preliminary assessments of immediate impacts in the regions**

##### ***Africa***

3. African ministers of finance and planning noted in a communiqué of 12 November 2008 that “this crisis could not have come at a worse time for the African continent; it constitutes a major setback at a time when African economies were turning the corner”. The predicted slowdown in world demand will cool off rocketing high food and fuel prices, which have been throttling many poor food- and fuel-importing African economies. But many fear that the developed world’s credit crunch may choke aid, trade and investment to Africa, straining vulnerable economies already hurting from high food and fuel prices.
4. The weakening of global economic growth is likely to lead to a reduction in:
  - *Investments and capital flows to the region.* Net foreign direct investment (FDI) inflows rose from a yearly average of US\$12 billion over the period 1998–2001 to \$18 billion in the period 2002–05, according to the United Nations Economic Commission for Africa.
  - *Export earnings.* Global demand for Africa’s principal commodities is likely to decline, and so will export prices. The decline in exports will reduce employment in the formal economy, as well as income in the informal economy and in rural areas. It



will decrease government revenue and, consequently, diminish the ability of States to provide social services to the public and carry out major investments.

- *Tourism earnings.* The latest statistics from the World Tourism Organization indicate that Africa attracted an estimated 44.5 million tourists amounting to US\$21.6 billion in receipts. The recession is likely to have a significant impact on tourism.
  - *Volume of aid.* One question is whether the flow of donor resources to finance development expenditure will be maintained or become less predictable. The implications of the financial crisis are that funds may be redirected to meet the more pressing economic development and related social challenges arising from the global recession in the donor countries.
  - *Remittances.* In 2007, African migrant workers employed in Europe and elsewhere sent home some \$20 billion in earnings to help their Africa-based relatives escape poverty at home. In sub-Saharan Africa, migrant remittances amounted to \$12 billion in 2007 and accounted for 2 per cent of GDP for the continent. Migrant workers are in greater jeopardy of losing their jobs because of the financial crisis, which could reduce their capacity to send income remittances home.
5. The social impact of such a scenario would be increasing levels of unemployment and an increase in the number of extreme poor. Worsening macroeconomic conditions will lead to major labour market disruptions: rising unemployment, a fall in real wages, the “informalization” of a certain number of jobs, increased job insecurity and rising poverty and inequality.

### **Latin America and the Caribbean**

6. The global crisis is spreading to the economies of Latin America and the Caribbean through four channels: financial contagion, remittances, commodity prices, and external demand. Nevertheless, the region is better prepared to face the crisis than in the past and it is estimated that its GDP will continue to grow in 2008 and 2009, although at a slower rate than in 2007.
- The economies of Latin America and the Caribbean, like those in other parts of the world, are facing a situation of economic slowdown, more difficult external conditions, and high levels of inflation.
  - Nevertheless, it is estimated that during 2008 the economies of the region will have grown by about 4.5 per cent, according to the International Monetary Fund (IMF). This rate represents a decrease with regard to the 5.7 per cent estimated for 2007.
  - In recent months, the countries of the region have experienced less favourable external conditions, with a marked fall in share prices, reduced availability of dollars, and an exchange rate under pressure, particularly in countries exporting raw materials that have experienced a fall in the prices of exports.
  - Two important phenomena characterize the macroeconomic trends in the region: a reduction in the current account surplus (1.3 per cent of GDP in 2007 and a projected 0.9 per cent in 2008, with a slight deficit predicted for 2009) and a significant surplus in the capital and financial accounts. These results are due to a slowdown in exports and a sustained increase in imports, as well as prudent fiscal management, less borrowing and the accrual of assets (international reserves and stabilization funds).

- With data for 19 countries in the region, it is estimated that the rate of inflation in the 12 months to September 2008 was 8.7 per cent, higher than the estimated 5.6 per cent for the same period in 2007.
  - A slowdown in inflation is predicted in 2009, thanks to the reduction in international commodities prices, a more restrictive monetary policy and a decrease in the growth of demand.
  - It is forecast that the rise in food prices will result in an increase in poverty. In particular, it is estimated that a rise of 15 per cent in food prices would cause an increase in poverty equivalent to 2.8 percentage points, from 35.1 per cent of the population in 2007 to 37.9 per cent in 2008.
  - In 2009, it is forecast that economic growth will slow down even more rapidly in the region, dropping to 3.25 per cent according to the IMF.
7. Despite the external shocks, the historically high economic growth in the region favours a drop in unemployment in 2008. However, there are continuing gender and age gaps in the unemployment rate. The dynamic demand for labour can be seen in the generation of new jobs, and to a lesser extent in an increase in wages.
- In a year-on-year comparison of the first eight months of 2007 with the same period in 2008, it is estimated that the average weighted unemployment rate decreased from 8.6 per cent to 7.7 per cent. This regional unemployment rate is equivalent to approximately 16.4 million unemployed persons.
  - Despite the drop in unemployment at the regional level, young people continue to be most affected by unemployment.
  - In a context of rising inflation, the weighted average real minimum wage for 11 countries in the region increased by 3.3 per cent in the first eight months of 2008, less than the 4.8 per cent recorded for the same period in 2007. It should be noted that if the 14.9 per cent increase in Argentina were excluded, the increase of the weighted real minimum wage in the other countries would be 2.2 per cent.
  - Informal employment remains high, involving on average 50–60 per cent of the employed urban population in 2006.
  - In 2006, 39.2 per cent of the employed population in selected countries of Latin America lacked health coverage and/or pensions.
  - The slower rate of economic growth estimated for 2008 takes account of the labour market's reduced capacity to maintain the rate of expansion of demand for labour observed in 2007. The ever greater economic slowdown in 2009 and greater uncertainty would indicate a change in the downward trend in the regional unemployment rate, which could result in a slightly higher rate than that estimated for this year.

### **Arab States**

8. While most of the region's financial markets have declined significantly as a result of the global financial crisis, the real economy is expected to remain relatively sheltered, in large part due to mass surplus liquidity from the oil boom witnessed in recent years (in countries of the Gulf Cooperation Council (GCC)), relative insulation (for example in the Syrian

Arab Republic and Yemen) and low market capitalization (for example in Jordan and Lebanon).

9. Consequently, indicators of GDP growth and unemployment are expected in 2009 to remain largely unchanged from their 2007 levels. However, the threats of high inflation, prolonged market volatility and soaring national debts may yet take their toll in some quarters, leaving countries more vulnerable to an economic slowdown. In broader terms, the regional economic growth has been coming more from oil revenue, real estate investment, housing, tourism and foreign assistance, than from productive activity. Because these wealth surpluses have not been channelled into building a widespread industrial, infrastructure and skills base, the region's relative incapacity to absorb income and investment on a diversified basis could lead to economic instability if the global financial downturn grows worse. Declining living standards and increasing inequality are already a concern. In the absence of well-developed social security policies and mechanisms, the livelihoods of growing numbers of vulnerable workers, including the region's large cohorts of migrant workers who account for more than 60 per cent of the national labour force in most of the GCC countries, may come under further threat. A prolonged slowdown in the international economy is likely to cause a decline in remittances, job creation, tourism and official development assistance (ODA) and an increase in unemployment, particularly among young people.
10. Looking ahead, the global financial slowdown can be seen as an opportunity for regional investment and socio-economic reform, encouraging national authorities to strengthen socio-economic policies and embark on a process to increase transboundary cooperation and security. Countries in the Arab States region could expand their collaboration in fields where job growth is expected to be strong, such as water, energy and the environment, through interregional agreements focused on building trust through cooperation. This could be supplemented with interregional cooperation in other sectors, including agriculture, industry, information and education.

### ***Asia and the Pacific***

11. As this crisis originated in financial markets, its first effects within the Asian region have been economies with well-developed and globally integrated financial markets, such as Australia, Hong Kong (China), Japan, New Zealand, Republic of Korea and Singapore. Each of these economies is experiencing a sharp deceleration in economic growth.
12. Emerging economies whose growth depends heavily on manufacturing exports to the United States and the European Union (EU) (such as Cambodia, China, Philippines and Viet Nam) are slowing down markedly. Other countries, whose exports are driven by a single industry, are also affected. South Asian countries are expected to be affected less through the "export channel" because they have a much lower export share in their GDP, compared to many East and South-East Asian countries.
13. Pacific island economies are, to some extent, shielded from the most immediate effects of the crisis but they are not immune. However, slowdowns in tourism, real estate and commodity-based lending can be expected to slow regional economies.
14. Japan's economy is expected to contract by 0.2 per cent in 2009 and newly industrialized economies are projected to experience a mere 2.1 per cent growth in 2009, down from a robust 5.6 per cent in 2007. The GDP growth rate in developing Asia is expected to slow down from 10 per cent in 2007 to 7.1 per cent in 2009.
15. Economic growth in India is expected to decline from 9.3 per cent in 2007 to 6.3 per cent in 2009, which threatens to slow development and poverty reduction in the country. The

Chinese economy is slowing significantly, prompting policy-makers to take unprecedented measures to loosen monetary policy and stimulate domestic demand through fiscal spending.

16. The financial crisis is having a number of adverse impacts on Asian labour markets.
17. *Employment growth is slowing.* Recent business surveys indicate that employers in the region are reducing hiring but do not expect employment to be cut during the rest of the year. Some companies have also reduced overtime in order to save jobs.
18. *The sectors most affected* include financial services (white-collar workers), export industries (garment, electronics and other sectors – many dominated by women workers), construction, real estate, commerce, transportation and tourism.
19. *Young women and men “feel the heat”.* As the number of new vacancies shrinks, labour turnover is declining and school leavers and graduates are experiencing increasing difficulties in finding jobs. Youth unemployment is already high in some countries (25.1 per cent in Indonesia, an estimated 25 per cent in Sri Lanka and 14.9 per cent in the Philippines in 2007) and the numbers are expected to swell.
20. *Wage growth is slowing down.* Wage growth is slowing down everywhere, eroding living standards. In some countries, the social partners have negotiated a lower increase in wages to save jobs (Singapore); in others (Indonesia) the Government has set a limit on the minimum wage increase.
21. *Some job losses, but not large scale so far.* In Thailand, 125 factories retrenched a total of 15,000 workers between 1 January and 31 October, and about 17,000 more jobs are likely to go during the rest of the year. The Social Security Board is considering extending the period of unemployment benefits from 180 to 240 days. In China, there are unconfirmed reports that factory output shrank sharply in the face of waning orders and that hundreds of companies are closing down and laying off their workers.
22. *Unemployment is expected to rise in developed countries.* In more developed Asian economies, employment growth will falter and unemployment rates will rise.
23. *The informal economy/vulnerable employment is expected to expand in developing Asia.* While workers in more formal manufacturing activities – particularly those in export-oriented industries – may lose their jobs or face reductions in hours worked or in their pay, many workers in the affected industries will be forced to seek alternative employment in informal activities. Many countries therefore face a possible expansion of their urban informal economy.
24. *Labour supply pressure will exacerbate the challenges.* The greatest challenge will be in countries that experience a sharp deceleration in economic growth amidst fast labour force growth (such as Cambodia, Pakistan and Philippines). China faces the challenge of declining growth in a context where the population has high expectations of a continued rise in living standards.
25. *Growing concern about migrant workers and their remittances.* Labour migration outflows in the Asia–Gulf region are bound to stabilize or experience a modest decline. Total outflows will thus be reduced, but net flows may still remain positive for some time to come. In countries like Nepal, lower foreign earnings will make it harder to service external debt and could lead to increased social tension.

26. *Vulnerability to child labour could increase.* The impact of a global economic downturn, increased unemployment and underemployment could also have a significant impact on child labour.

### **Europe and Central Asia**

27. The European Commission is predicting, in its economic forecast for autumn 2008, that growth (GDP) in the euro zone will drop sharply to 1.2 per cent in 2008 and 0.1 per cent in 2009 before recovering to 0.9 per cent in 2010.
28. Employment is expected to increase by about 0.5 million jobs in the euro area in 2009–10, a figure that is markedly lower than the 4 million jobs created in 2007–08. The unemployment rate is expected to increase to 8.4 per cent in the euro area in 2009, with a further increase to 8.7 per cent projected for 2010. Unemployment stood at 7.6 per cent for the euro area in September 2008.
29. Consumer price inflation is set to fall rapidly to about 2.25 per cent in 2009 in both the EU and the euro area.
30. The financial crisis will substantially worsen government finances. The average government deficit for the euro area for 2007 was 0.6 per cent, rising to 1.3 per cent in 2008 and is predicted to rise to 1.8 per cent in 2009 and 2 per cent in 2010.

### **Central and Eastern Europe**

31. GDP forecasts for 2009 suggest a limited slowdown in the four Central European countries of around one percentage point, recession in the Baltic States and a more significant slowdown of over two percentage points in the Balkans, concerning in particular Bulgaria, Romania and Serbia, the countries with the highest current account deficits.
32. The employment level is likely to be affected by an increase in layoffs and stunted job creation. The job losses will affect certain groups of workers more than others. For instance, the already low rates of youth employment in the region are expected to decrease further, given that youth employment is highly sensitive to the business cycle. The contraction of employment will not improve the labour market position of many disadvantaged workers, such as low-skilled workers, older workers, disadvantaged women and national minorities. Unfavourable credit environments will negatively affect self-employment. The impact of the crisis on employment could be complemented by that on labour force participation, which is likely to decrease with lower returns on labour. The increase in the number of unemployed people will also need to take into account the discouraged workers who have lost hope in the job search.

### **Commonwealth of Independent States (CIS)**

33. Growth prospects in CIS countries are deteriorating as the region is facing increasing difficulties in gaining access to capital. This is felt especially in countries with rapidly widening current account deficits such as Armenia, Belarus, Georgia, Republic of Moldova, Tajikistan and Ukraine, in the form of massive capital flows from countries like Kazakhstan and the Russian Federation, and declining external demand. For low-income countries with high numbers of migrant workers outside the country (such as Armenia, Georgia, Kyrgyzstan, Republic of Moldova, Tajikistan, Ukraine and Uzbekistan) who may now have to return home as a result of deteriorating labour demand in the host countries (mostly Kazakhstan and the Russian Federation, and in the case of the Republic of Moldova and Ukraine also the EU) the loss of remittances could be an additional cause of economic slowdown.

34. The labour market situation may not worsen dramatically in the subregion, since these countries have recently experienced labour shortages due to high labour demand and large-scale out-migration for work.
35. In Ukraine, the Labour Ministry has recently estimated an increase in the unemployment rate by 0.9 percentage points from 6.8 per cent in 2008 to 7.7 per cent in 2009. In the Russian Federation, owing to significant labour shortages, only foreign-owned enterprises may downsize their staff while Russian enterprises are not expected to cut their workforce but may use more informal labour. Enterprises may start dismissing migrant workers from Ukraine, Republic of Moldova, Central Asia and the Caucasus who would then return home and contribute to the deterioration of the labour market situation in their country of origin. A significant decline in the flow of remittances, given their high share in GDP (36 per cent in Tajikistan) would have important negative effects on the well-being of the population.

## 2. Selected examples of policy responses adopted by countries to counter the financial crisis

1. Cut in interest rates: most developed and many emerging economies cut their interest rates, sometimes together. For example, central banks have cut interest rates, sometimes in a concerted fashion.
2. Some countries have raised interest rates.
3. Measures to prevent banks from collapsing.
4. State guarantees on personal bank deposits, either complete guarantees or increases to the upper limit.
5. Measures to boost demand and protect employment including:
  - (a) a comprehensive fiscal stimulus package;
  - (b) labour-intensive programmes in construction and infrastructure and accelerated spending on infrastructure;
  - (c) active and passive labour market policies. Possible extension of period of unemployment benefits. Support to youth employment, including through subsidized jobs for the unemployed;
  - (d) support to enterprises: reductions in taxes on FDI, measures to support enterprises, specific support to SMEs, export industries and sectoral enterprises (automobiles, non-petroleum exports), upgrading the capacity of enterprises to increase competitiveness;
  - (e) measures to encourage enterprises to avoid redundancies;
  - (f) support to entire sectors such as airline companies, construction, machinery, agriculture and tourism;
  - (g) alternative measures to layoffs such as lower wage increases through social dialogue, lower increases in minimum wages fixed by the government, reduced hours and limits to overtime;

- (h) local economic development; local stimulus packages; measures to support enterprises and workers.
6. There are examples of coordinated efforts between governments in each of these areas. Social partners were consulted by governments on fiscal packages in a number of cases.

### **3. ILO action in relation to the financial crisis up to early November 2008**

36. The ILO Director-General addressed the International Monetary and Finance Committee and the Development Committee at the annual meeting of the World Bank and the IMF on 11 October 2008. He noted that: “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.”
37. On 16 October 2008, the International Institute for Labour Studies released its *World of Work Report 2008*, which emphasized the role of imbalanced income developments as a factor in the financial crisis.
38. On 20 October, the ILO Director-General held a press conference announcing that, based on preliminary ILO estimates, world unemployment could increase by 20 million in 2009 and the number of working poor could rise by 40 million.
39. On 24 October, the Director-General, in response to a request from the United Nations Secretary-General, addressed the Chief Executives Board on the theme of the social consequences of and response to the financial and economic crisis.
40. The Director-General signed an editorial article published in the last week of October 2008 in 27 newspapers around the world, spanning all regions and nine languages.
41. The Director-General established an internal task force on the ILO response to the crisis, which convened on 21 October. Its first task has been to prepare this document.
42. On 10 November, the Committee on Sectoral and Technical Meetings and Related Issues of the Governing Body proposed two tripartite technical meetings in the first quarter of 2009, on the impact of the food crisis on decent work, and the impact of the financial crisis on financial services workers, respectively.
43. On 14 November, the Board of the International Institute for Labour Studies examined a policy brief on the socio-economic causes of the financial crisis.

### **4. Options for policy responses**

44. To mitigate the employment, labour and social impact of the financial and economic crisis, the following list of ten short-term and medium-term policy measures should be considered (no particular order is followed). The list is preliminary, not exhaustive, and would need further elaboration. The 2008 ILO Declaration on Social Justice for a Fair Globalization provides an appropriate framework to design such responses, in particular through the emphasis on coordinated action and social dialogue.

### **Policy measure 1**

*Assessing the likely employment and social situation and impact of the proposed policy packages. Fine-tuning the macro policy mix to enhance employment and social protection.*

#### *Rationale*

A number of governments from all regions in the world have adopted measures to prevent the collapse of banks while adapting their monetary and fiscal policies to the new challenges. It is important to ensure that demand stimulus packages are adopted and that these explicitly target employment and social protection.

### **Policy measure 2**

*Implementing active and passive labour market policies, including broadening the coverage of unemployment insurance, ensuring adequate severance payments, as well as targeted measures to help displaced workers.*

#### *Rationale*

The financial crisis and subsequent credit squeeze and fall in demand will be reflected in job losses, especially in the formal sector. Labour market policies not only help to mitigate the social impacts of the crisis, but also boost demand and the economy in general, thus also acting as a counter-cyclical measure.

### **Policy measure 3**

*Providing support to enterprises including SMEs, such as new credit lines, tax relief, retraining and employment subsidies, public investment in infrastructure, and start-up credit for unemployed and displaced workers. Social dialogue should be strengthened to ensure socially responsible enterprise restructuring. Implementing policies based on the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) aimed at minimizing the social costs of MNE restructuring or reduced FDI flows.*

#### *Rationale*

The crisis reduces demand for firms' output and their access to credit and provokes bankruptcies. SMEs represent the bulk of employment in the world. The sharp decrease in exports (for example, 20 per cent in the clothing industry between July 2007 and July 2008) strongly affects MNEs.

### **Policy measure 4**

*Introducing targeted programmes to support vulnerable groups such as informal and rural workers, women, youth and older people. This includes safeguarding and improving access to social security benefits and social assistance benefits, income support to unemployed people not covered by social security schemes, as well as conditional cash transfer programmes. An emergency package of state-financed social transfers would help to mitigate the rise in poverty resulting from the crisis. Other measures include labour-intensive public works programmes and employment entitlement programmes, credit programmes and other measures to support rural employment, as well as local community-level interventions.*



*Rationale*

Safeguarding existing benefits and introducing basic social transfers help to stabilize domestic demand at a time when exports are weakening. They protect the productivity of the workforce and the long-term employability of the younger generation and prevent child labour. The experience of past recessions shows that many displaced workers tend to join the ranks of informal workers or the self-employed. Some leave the labour market altogether, with significant long-term consequences. Women, who are often concentrated in precarious situations, are most vulnerable to layoffs during periods of crisis, while school leavers find it more difficult to find a first job.

**Policy measure 5**

*Making full use of the relevant standards, including promoting the effective recognition of the right to collective bargaining, relying on the information provided by the ILO supervisory mechanisms on the adoption of policies.*

*Rationale*

The eight fundamental Conventions are fully relevant in responding to the crisis. Freedom of association, collective bargaining and equality and non-discrimination protect and empower working women and men. The prohibition of forced labour and child labour provide essential safeguards against people falling victim to inhumane conditions of labour. Collective bargaining can foster cooperative labour-management solutions to deal with the consequences of the crisis. The capacity of the State to enforce fundamental principles and rights at work needs to be strengthened.

**Policy measure 6**

*Preventing recourse to child labour as a coping strategy of vulnerable families through alert mechanisms, advocacy, dialogue and ongoing support from donors for the elimination of child labour. Targeting actions to prevent the development of bonded labour.*

*Rationale*

Poor families in the developing world facing reduced income are more likely to withdraw children from schools and send them to work.

**Policy measure 7**

*Providing training to social partners to increase their capacity to use social dialogue as a means of addressing issues arising from the crisis, including enterprise restructuring, productivity, contract and work time flexibility, collective layoffs and ways of mitigating their consequences.*

*Rationale*

Enterprises faced with reduced demand are shedding costs, hours and workers. Productivity gains are sought through restructuring, flexible work organization, restrictive wage policy, and sometimes reduced occupational safety and health standards. As a result, labour-management relations at the enterprise level deteriorate, as does the ability to find acceptable solutions.

**Policy measure 8**

*Strengthening sectoral social dialogue at the national, regional and global levels. Monitor the sectoral impact of the crisis and address the labour and social impact in sectors such as agriculture, automobiles, manufacturing, commerce, construction, transport, tourism, financial services, health and other public services.*

*Rationale*

Dialogue helps to identify the policy priorities needed to deal with the social impact of the crisis in different economic sectors. The involvement of the social partners in policy-making would not only make these reforms more feasible, but would give them increased legitimacy.

**Policy measure 9**

*Protection for migrant workers and measures to avoid their return which would only add to the crisis. Policy elements include guidelines to employers and destination countries, dialogue between countries of origin and destination, advisory services on labour market policies for migrant workers and on return policies, and data monitoring of trends.*

*Rationale*

Recessions usually put migrant workers in greater danger of losing their jobs than national workers. Countries that are highly dependent on remittances are heavily exposed to the ongoing crisis, as the decrease in remittances can have a recessionary impact. Remittances in the developing world exceed US\$250 billion and account for more than 10 per cent of GDP in over 20 countries.

**Policy measure 10**

*Addressing the financing of social security funds and implementing solidarity-based basic social security schemes.*

*Rationale*

Unemployment benefit and social assistance schemes that are funded largely on a “pay-as-you-go” basis face immediate financing problems in a context of rising demand. Pension schemes are particularly exposed to the crisis in the financial markets. In both cases, the levels of benefits might decrease or contributions increase. In addition, public and private pension funds have contributed to the instability of financial markets. The crisis has clearly shown that the dependency of benefit levels on the performance of financial markets is problematic.

**5. Challenges to global governance arrangements**

45. The crisis has brought to the fore a number of issues concerning the governance of globalization. The principal focus so far is on a range of issues related to international finance and the coordination of fiscal measures to stimulate recovery. The Annual Meetings of the IMF and the World Bank in early October 2008 started the process of rethinking policy frameworks and governance mechanisms.
46. Resolving representation in international policy-making institutions, particularly regarding monetary and financial policy, has become a matter of urgency. Improved policy

coherence between a number of related questions could also form part of discussions on reforms to the multilateral system and on ways of containing the downturn and accelerating the recovery. Those questions include:

- trade liberalization;
- the scale and effectiveness of official development assistance (ODA);
- environmental protection, especially climate change; and
- decent work.

47. The UN framework provided by the economic, social and environmental pillars of sustainable development offers a comprehensive approach to addressing such issues, including progress towards the Millennium Development Goals (MDGs). The importance to the ILO and its constituents of a conducive global, regional and national environment for the generation of decent work opportunities is a major theme of the 2008 Declaration on Social Justice for a Fair Globalization.<sup>1</sup>

48. On 8 and 9 November 2008, G20 finance ministers met in Sao Paulo, Brazil. Their communiqué highlights the importance of “ensuring financial stability, supporting global growth and maintaining recent achievements in poverty reduction and social inclusion”, and states that measures “must be designed not only to restore growth and financial stability, but also to minimize the negative social impact particularly in emerging and low-income countries.”

49. A number of potentially important commitments to reform of financial institutions which could have a bearing on the ILO’s responsibilities were mentioned, including:

- comprehensive reforms of the Bretton Woods institutions “so that they can more adequately reflect changing economic weights in the world economy and be more responsive to future challenges”;
- review of “the adequacy of the resources of the IMF, the World Bank Group and other multilateral development banks”;
- enhancement of the IMF’s capabilities “with due regard to systemically important economies, in order to anticipate stresses and identify at an early stage vulnerabilities, systemic weaknesses and spillover risks across financial markets”.

<sup>1</sup> “Other 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.”

50. The G20 Heads of State and Government meet in Washington, DC, on 15 November. The Group represents 84 per cent of world GDP and 66 per cent of the world's population.<sup>2</sup> It is thus much more representative than the "Group of Seven" industrialized countries that has met annually for more than 30 years. The G20 could take on a much stronger role, including around the biannual meetings of the IMF and World Bank.
51. The UN with its 192 Members has the legitimacy of universality, as does the ILO with its almost coincident 182 Members. An important challenge is how to ensure that a reinforced G20 process contributes to the ongoing reform efforts within the UN to strengthen its effectiveness.
52. As the only international body in which representatives of the real economy, workers and employers, participate alongside governments, the ILO has a particularly important role in ensuring that reforms and policy packages for recovery take fully into account the need to create a strong foundation for productive enterprises and decent work in the future.
53. Professor Joseph Stiglitz, in his 30 October address to the United Nations General Assembly as Chairperson of a Panel of Experts on the Financial Crisis, specifically mentioned the UN and the ILO in the context of monitoring the consequences for growth, unemployment and poverty of multilateral financial institutions.
54. The ILO will be represented at two forthcoming international meetings at which aspects of the multilateral response to the crisis are likely to be discussed. These meetings are:
- Financing for Development (Doha, 29 November–2 December); and
  - Climate Change (Poznan, 1–12 December).
55. Further meetings of the UN system and the Bretton Woods institutions in the first half of 2009 will also provide opportunities to highlight the relevance of the Decent Work Agenda in coordinated international action to combat the crisis. The March 2009 session of the Working Party on the Social Dimension of Globalization could also be devoted to an in-depth discussion of possible reforms to the international financial system and their impacts on the Decent Work Agenda.

## 6. Possible ILO responses to the crisis at the end of 2008 and in early 2009

56. Again, this is a preliminary list that would need further elaboration.

<sup>2</sup> The Members of the G20 are the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russian Federation, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom and United States. The European Union is also a Member, represented by the rotating Council presidency and the European Central Bank. To ensure that global economic forums and institutions work together, the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, plus the chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G20 meetings on an ex-officio basis. For the 15 November meeting, President Bush has also invited the UN Secretary General. In 2009, the United Kingdom will take over the rotating chairmanship of the G20 from Brazil.

1. Continuous monitoring of employment, labour and social impacts of the crisis in all regions; information collated could be made available to ILO Members through the Internet or email on a continuous basis.
2. Rapid ILO expert analysis and advice in response to requests on:
  - (i) the fiscal cost and design of emergency measures to expand social security, unemployment insurance, employment guarantee schemes, and safeguarding pension entitlements; providing basic assistance systems for the informal sector;
  - (ii) the employment impact of fiscal stimulation packages adopted or contemplated by governments;
  - (iii) assessment of alternative employment support measures;
  - (iv) management of social security funds in volatile financial market situations;
  - (v) emergency measures to stimulate youth employment and employment in small enterprises;
  - (vi) the cost and design of emergency training and retraining programmes;
  - (vii) technical support, possibly jointly or in parallel with the IMF, to countries worst hit by the crisis;
  - (viii) analysis and advice on the overall coherence of proposed measures and interaction with the stimulus packages adopted or contemplated.
3. Support to national tripartite dialogues on overall assessment of the impact of the crisis and consideration of support measures to offset anticipated employment, labour and social impacts.
4. Support on request to ministries of labour, planning, finance or economics, and to employers' and workers' organizations, on specific policy issues in areas of ILO expertise. Exchange of experience, methods and practices among policy-makers and experts to mitigate the economic and social implications of the crisis (possibly through the Turin Centre).
5. Identification within Decent Work Country Programmes of programmes, projects and measures specially tuned to addressing the actual or potential impact of the crisis.
6. Review of planned ILO meetings, seminars and workshops whose agendas could be reviewed to focus on the crisis. For instance, the agenda of the European Regional Meeting to be held in Lisbon from 9 to 13 February 2009 has been adjusted to reflect the new context of the crisis.

Geneva, 14 November 2008.