



## *Sustainable Recovery and Shaping a Fair Globalization*

**Statement by Mr Juan Somavia,  
Director-General of the International Labour Office,  
to the International Monetary and Finance Committee and  
Development Committee  
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### *Summary*

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

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

Today global action has four key elements:

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

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

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

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

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

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

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

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### ***I. Restoring trust in the international financial system***

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

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

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

freeze are spreading through the advanced economies but are already hitting many developing countries.

## ***II. Placing a floor under the downswing***

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

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

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

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

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

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

ODA is a potentially vital global fiscal stabilizer for least developed countries in particular. Achieving the global aid flows goals set five years ago in Monterrey is increasingly important to preventing a slowdown sliding into a damaging world recession that would set back progress on poverty reduction dramatically. Just meeting the Gleneagles commitment for increased ODA by 2010 has a price tag of US\$22 billion, a fraction of recent bank bailouts. The World Bank

estimates that 100 million people have fallen back below the \$1 a day poverty line and the billions living in poverty are seeing their inadequate purchasing power eaten away by price increases.

### ***III. Redesigning the financial system***

Recovery from the recession that the financial collapse is causing must rest on sound and broad foundations. The most dramatic financial crisis in 80 years calls for rebuilding the regulations that govern capital markets. I welcome the proposal of IMF Managing Director Dominique Strauss-Kahn that this year's Annual Meetings should commence a process of reform of the global financial system to ensure that financial institutions and markets are properly regulated.

Self regulation of finance markets has failed. We need smart regulation and intelligent public policies. Decisions about when, whether and how much to regulate, or deregulate markets are about the use of a policy tool. When deregulation is regarded as always the best policy in all circumstances it becomes an ideology not a tool.

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

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

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

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

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

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

France has called for global solutions that are determined within “legitimate, trusted multilateral forums”.

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

It is time we reasserted the primacy of human beings at work. As the ILO’s Constitution reminds us, “Labour is not a commodity”. We need a system and rules that reward and encourage investment in productive enterprises, skilled workforces and cohesive communities in the long term without the constant, destructive and illogical pressure of financial markets for very high short-term returns.

The increasing political questioning of the current globalization has its roots in imbalances in the relationship between the state, the market, society and individuals. A sound and stable governance structure for globalization needs to establish a new balance. In recent decades we have undervalued the role of the state, overvalued the market, failed to listen to the democratic expressions of social concerns and neglected the needs of too many individuals, families and communities for a decent quality of life. As the World Commission on the Social Dimension of Globalization said in their 2004 report<sup>2</sup> “there are deep-seated and persistent imbalances in the current workings of the global economy, which are ethically unacceptable and politically unsustainable.”

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

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

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

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<sup>2</sup> A Fair Globalization: Creating Opportunities for All, World Commission on the Social Dimension of Globalization, ILO 2004

<sup>3</sup> Report available at <http://gmj.gallup.com/content/101680/Global-Migration-Patterns-Job-Creation.aspx>

<sup>4</sup> Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World’, UNEP/ILO/IOE/ITUC, September 2008

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

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

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

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