INTERNATIONAL LABOUR ORGANIZATION

ILO Contribution to the
Review Session on Chapter VI of the Monterrey Consensus

Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

New York, 11-12 March 2008
Distinguished Co-Chairs,

Chapter VI of the Monterrey Consensus remains an extremely relevant statement of the challenges facing the international community especially in designing an international architecture that promotes financial stability at the same time as productive and poverty reducing investments, particularly in developing countries.

The repercussions of the current turbulence in international financial markets, with potentially severe consequences for investment, growth, government budgets, employment and poverty reduction, are causing serious concern amongst ministers responsible for employment and social affairs and leaders of business and trade unions around the world.

Indicators of the scale, depth and spread of the slowdown are uncertain. Nevertheless, as the IMF has suggested in their January updated forecast, the balance of risks appear to be on the downside. Such an outturn would result in a changed economic and political context for international development and poverty reduction, including the promotion of the Decent Work, and a setback for efforts to shape a fair globalization.

The process of globalization has created important economic channels between countries which can stimulate growth but also propagate recession. Developments in labour markets are both affected by developments in other markets and are also a factor influencing important drivers of growth such as consumption and saving. Furthermore developments in developing countries, especially the largest, increasingly interact with those in the G7 and other industrialized countries. The capacity of the multilateral system of cooperation to facilitate the emergence of a coherent policy response to a possible global slowdown is thus an issue of central importance to the implementation of the Monterrey Consensus.

**Developing a Coherent Response to Risks of a Global Slowdown**

Indeed, if the financial turmoil is a symptom of a failure to address global imbalances, a durable recovery on to a path for equitable global development may require a much higher degree of international policy coherence than has been achieved in recent years. Policy initiatives within the framework of the ILO’s Decent Work Agenda could be an important element of such an international policy response.¹

The relevance of the ILO’s Decent Work Agenda was highlighted by G8 heads of state and government at the 2007 Summit in Heiligendamm which amongst other things stated that, “We are convinced that a globalization that is complemented with social progress will bring sustainable benefits to both, industrial and developing countries. We recognize our responsibility for an active contribution towards this objective. Therefore, we support the International Labour Organization’s (ILO) Decent Work Agenda with its four pillars of equal importance: the effective implementation of labour standards, especially the ILO core labour standards, the creation of more productive employment, further development of inclusive social protection systems and the support of social dialogue between the different stakeholders”². At a meeting called by Chancellor Merkel on 19 December 2007 the heads of the IMF, World Bank, WTO, OECD and ILO agreed to work together to follow up the far reaching commitments made at the G8 summit.

**Financial Instability, Economic Volatility and Social Costs**

Financial integration and innovation have developed at a very fast pace in recent years, and as the current crisis has revealed, a large number institutions took on risks that collectively threaten the system as a whole. Greater financial integration has increased the volatility of international capital movements, resulting in more frequent financial and

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¹ The UN Commission on Social Development adopted in February 2008 a comprehensive resolution on promoting full employment and decent work for all which highlights the interconnection between the ILO’s decent work and the UN’s international development agendas.


² Growth And Responsibility In The World Economy G8 Summit Declaration (7 June 2007 Heiligendamm) paragraph 22
economic crises. Such financial crises do affect growth, income and employment not only in the short-term but also in the longer term.³

Financial turmoil has stimulated a renewed discussion of international rules concerning banking supervision and their interaction with monetary policy. As argued by the Deputy Managing Director of the IMF Mr Takatoshi Kato, “Ongoing events in the financial markets call for greater integration of financial stability and price stability policies to enhance monetary policy effectiveness.”⁴

Lower interest rates, a fiscal boost and a lower dollar counteract the slowdown in the US economy but underlying imbalances particularly between domestic savings and consumption, the government deficit and on the current account of the balance of payments may remain. The US economy may not resume the role of spender of last resort in the global economy.⁵ This would also put into question reliance on exports as a key driver of growth in a number of developing countries. The extent to which surplus countries will continue to finance the US deficit is also under question, as returns to government bonds are low and the dollar weak.

Exports to the US and other industrialized countries have been an important component of developing countries recent surge in growth. China and South East Asia have gained an important position in the trade of manufactured goods and have also contributed to commodity exporters’ growth as a result of their high demand for fuel and raw materials.⁶ While other factors have also contributed to the acceleration in developing countries growth, including policy reforms to stimulate domestic investment and competition, the effect of reduced export markets on overall economic performance is a cause of concern.

Balanced and Coherent Development Strategies

Looking to the medium term, policies that might reduce and counteract the spill over effects on developing countries with a rebalancing of the US economy, an important role could be played by reducing dependence on exports as a driver of growth by stimulating domestic consumption and job creating investment, especially in countries with the fiscal and foreign account space to do so. Such policies could also focus on the employment and social protection needs of lower income women and men, who from a macroeconomic perspective have a high propensity to spend.

Developing social security systems with a wider coverage in developing countries tackles both social and economic imbalances that weaken the sustainability of development. Middle-income developing countries, in particular in Asia have high saving rates, up to 25% of GDP in some cases, in part as an answer to the lack of universal health and old-age insurance, as well as to cover the cost of education. Well designed social security systems are investments that both give better overall protection and release income for consumption and thus domestic and global demand. Minimum wage fixing policies can also compensate for the weak bargaining position of the lowest paid workers and ensure that the benefits of growth are more equitably shared between workers and employers.

Side by side with measures to extend social protection, many countries could develop measures to promote an environment conducive to the creation and growth or transformation of enterprises on a sustainable basis. The ILO’s strategy for the promotion of sustainable enterprises developed and agreed at the 2007 International Labour

³ Growth, investment and jobs: The international financial dimension GB.294/WP/SDG/2(&Corr.).
⁵ The phrase “spender of last resort” has been much used to describe the US economy but was coined in a Note for the Levy Institute by Wynne Godley and Bill Martin in 1999 titled “How Negative Can U.S. Saving Get?” http://www.levy.org/pubs/2-3-99-a.pdf
⁶ The US was the destination of 21.4% of all China’s exports in 2005, against 8.5% in 1990, according to the UNCTAD (2007) Handbook of Statistics 2006.
Conference could be used by many countries to help ensure that private investment, especially by smaller businesses, is at the heart of strategies to stave off recession and stimulate a quick rebound.  

Investment in human resource development is also a key aspect of preparing economies for recovery and meeting the skill shortages which may be part of the imbalances that underlie the end of the upswing in many countries. Both technological change and opening of markets to international competition may have led to skill shortages and a consequent bidding-up of the wages of scarce skilled workers. Although indicators of educational attainment such as literacy rates have progressed significantly, the supply of skilled workers may not be keeping pace with new demands or not be attuned to employers’ needs. In addition, high demand for skilled workers in urban areas of some developing countries has exacerbated gaps between rural and urban populations. Such skills-based inequalities are particularly striking in emerging countries divided between export-led high-growth areas and the rest of these countries.

Infrastructure investment can be an important direct stimulus to employment. If the risks of a prolonged slowdown increase, such investment programmes should ideally be initiated early in the downswing to take effect when most needed. Since many countries are looking to renew their infrastructure as part of strategies to reduce green house gas emissions, programmes focussed on creating “green jobs”, which are economically and environmentally sustainable, could be part of policies designed to counteract a slowdown. Investment in building insulating infrastructure has proved to be a valuable source of employment as in the construction sector as well as making a significant contribution to energy saving.

Balanced growth within countries is an important part of a more stable international economic environment. At the international level, greater policy coherence between trade, aid, and financial policies is required to address global imbalances, as highlighted by the World Commission in its 2004 report and re-emphasised by many participants at the ILO Lisbon Forum on Decent Work for a Fair Globalization. The ILO has facilitated the holding of a series of meetings between international organizations under its Policy Coherence Initiative which have discussed various aspects of the challenge.

Integrating Social and Economic Policies in the Design of the International Architecture for the Financing for development

Financial markets are the most integrated part of the global economy. The credit crunch in the USA and other industrial countries is having repercussions on businesses and jobs worldwide. In addition, the squeeze on borrowing is affecting investment and consumption and thus production both in the richer countries and through the trade channel, developing countries. It is unclear as to how severe, long and widespread the credit squeeze will be and how much effect it will have on production and employment. The ILO's Decent Work Agenda offers both policy tools that have heightened relevance in a period of slowing growth and the mechanism of social dialogue based on international labour standards for developing consensus over priorities.

A number of formal and informal mechanisms for multilateral cooperation are available to improve policy coherence. The process of review of the implementation of the Monterrey Consensus creates a welcome opportunity to examine how the coherence and consistency of the international monetary, financial and trading systems could be enhanced and in particular how to ensure that they promote sustainable development. The unfolding of the current financial crisis is revealing important interdependencies between countries but also between social and economic imbalances. A more stable international financial system needs to rest on stable social foundations. The main function of financial systems is ensuring that savings are mobilized efficiently to promote productive investment and employment and thus, should be the primary objective of efforts to put in place an architecture that supports development.

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8 Many such jobs have been created in Brazil, Germany, and Spain.