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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.

1: Productive economy damaged by some financial practices

In the new global financial system, the consequences of the unwinding of long and complex chains of credit based on risky and opaque foundations spread rapidly across borders.

Some innovations in the structuring of packages of debts, have escaped prudential regulations designed to prevent a cascade of underperforming loans mounting into a major cash squeeze. Regulatory systems have in general failed to keep pace with these innovations perhaps in part because national regulators feared losing lucrative new business to competing financial centres or the belief that these innovations only needed light or no regulation.

As a result, some practices by private equity houses and sometimes hedge funds have led to the break up of previously sound and productive enterprises and loaded the remaining businesses with heavy debts. Years of commitment and dedication by many to making enterprises productive and sustainable with good labour practices are sacrificed to capture short term gains for a few.

The ethic that good hard work deserves a fair reward, a foundation of market economies, is being badly undermined by wealth creation increasingly unrelated to the real economy. The significant personal capital gains of the managers and owners of these institutions contrast sharply with the lay-offs, diminished earnings and greater job insecurity of the workforce. We need a balanced policy to regulate the impact on the productive economy and sustainable enterprises of highly leveraged debt instruments and non-transparent ownership vehicles.
2: Importance of wage growth and a basic social floor to underpin financial stability and sustained expansion of output

- Wage growth failed to keep pace with mortgage burden

Financial innovations have thrown household as well as corporate finance into turmoil in some countries. In the USA the stagnation of real wages since 2001 for all but the top 5 per cent of employees despite acceleration in productivity growth contrasted sharply with inflation in house prices. However, new ways of passing on the risk of lending to families with low and insecure incomes disguised the underlying fact that wage growth was not keeping up with the eventual burden of mortgage repayments. While reconsidering regulations concerning mortgage lending practices and the way in which derivative instruments pass on and disguise risks, 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. That’s the stable foundation for access to house ownership. The bursting of the sub-prime bubble is likely to cause severe hardship for many working families unable to maintain mortgage payments, lead to a cut back in consumption as they rebuild their finances, and different impacts in the housing construction industry. Better policies need to be in place to soften the fall for them.

- Macro policies for poverty reduction need to address minimum wages and establish a social floor

Consumption growth accounts for around two thirds of overall growth in most regions of the world in most years and is in turn fuelled by the expansion of real wages. However, macroeconomic policy has too often focused on wage growth simply as a burden on government expenditure, a potential cause of loss of export competitiveness, a disincentive for investors or its inflationary impact. These are real issues, but it is time to balance this one-sided view and focus on how policies and institutions can also help ensure that wage developments and other determinants of disposable incomes such as social security transfers are broadly consistent with non-inflationary and sustainable growth including expansion of consumption. This is particularly important for the largest developing countries which may need to be less reliant on the stimulus provided by exports to industrial countries, if these move to a slower growth pattern. Strategies aimed at raising the earning power of the working poor and of building a basic social floor for the elderly and families with school age children will both accelerate progress towards the Millennium Development Goals and help to ensure that developing countries policies help sustain global growth. This is equally valid for those children, women, men and households living under the poverty line in developed countries.

Crude wage caps aimed at ensuring compliance with fiscal targets have been part of IMF loan conditionalities. They have not taken account of, for example, the need to recruit and retain school teachers to attain MDG goals on education for all, or doctors for health objectives, or inspectors for labour law compliance. Minimum wages along with basic social security provision focussed on enabling working women and men at the lowest end of the income spectrum to escape poverty and empower themselves to take advantage of opportunities should become an ever more important part of sustainable development policies and as well as a development cooperation priority. The level of minimum wages should be set through mechanisms that ensure that businesses and trade unions are able
assist public authorities in determining their pace of increase and level so as to attain a balanced increase in both the quantity and quality of employment. There is much experience by which differentiations, according to sector, regions, size of enterprises can be made in setting minimum wages.

- **Growth of labour incomes to promote an expanding middle class, especially in developing countries, is key growth of demand and avoid global downturn.**

With the USA and other industrial countries unlikely to be as strong locomotives of growth in the near term as they have been in the past, rebalancing the world economy to prevent a global downturn will require increased reliance on growth in the purchasing power of an expanding middle class in developing countries. However, in many countries real labour income growth for most workers has lagged behind productivity leading to an erosion of the share of labour in the economy despite a sharp rise in the earnings of the very highest paid. This troubling trend was highlighted in the last two World Economic Outlooks of the IMF. Globalisation, with all its benefits, has been accompanied by growing inequality in the majority of countries making it even more difficult to cut into poverty and exacerbating tensions resulting from inadequate opportunities for decent work.

However in trying to explain increasing income inequality the IMF’s analysis focuses on trade liberalisation, technological change, and the financial aspects of globalisation. These factors are indeed significant. But we need to review IMF social policy advice that reduces the demand capacity of households. Labour market reforms designed to promote numerical and labour cost flexibility, cuts to the welfare state, less progressive tax policies, as well as weakened collective bargaining and social dialogue have also widened income gaps. Employers and workers both need a balance between security and flexibility especially at a time of rapid change. Unbalanced polices and the negative labour market trends they set in motion are part of the cause of growing concern about globalisation and the rise of protectionist sentiments.

### 3: IMF Crisis management must include strong social protection measures.

As Managing Director de Rato has stated, there remains an important risk that the financial crisis will cause a slow-down in economic activities not only at the epicentres of the crisis but all over the world. If this were to occur, it is likely to have serious consequences for enterprises, employment, wages and decent working conditions, as the experience of the many crises¹ of the last ten years has shown.

Previous experience in Asia and other countries shows that, through no fault of their own, the poorest, mainly women and older people, are least able to cope with economic slowdowns caused by financial crises and face the longest recovery road. The knock on effects of financial turbulence on progress towards internationally agreed development goals including the MDGs is troubling, with the consequential loss of legitimacy and credibility of the crisis management policies applied.

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¹ Asian crisis, Russia, Brazil, Turkey, Argentina, internet bubble, sub-prime mortgages, among others
This is not unrelated to the fact that to avoid the intrusive character of IMF policy conditions many countries have built up very large foreign exchange reserves to ensure that past experiences are not repeated, and that they are better prepared to weather crises in their own policy terms. This understandable reaction is nevertheless locking up resources that could be used to finance development. So, a review of the IMF’s approach to balance of payments support is necessary and should take into account the need to reduce the level of micromanagement as well as the importance of maintaining social cohesion as a key foundation for financial stability. We cannot simply balance the accounts by unbalancing the life of the weakest in society. A balanced IMF policy could liberate a lot of reserve resources for development use.

More generally, we must all work together to promote the policies that will give the IMF the relevance and legitimacy to be considered the vital meeting place for countries to promote financial stability both by ensuring orderly recovery from unsustainable balance of payments deficits and by coordinating policies to prevent imprudent lending and the risk of cumulative banking failures. A coordinated strengthening of financial market regulations and policies to promote productive investments is needed both to rein in imprudent, speculative, and predatory lending or investment practices and also to strengthen incentives for the financing of productive and socially responsible enterprises.

4: The fairness deficit of globalization

There is a longer term issue. The current pattern of globalization is seen by many to be socially, politically and economically unsustainable. It is perceived to have a “fairness deficit”. As seen from my previous comments, this pattern is strongly influenced by the behaviour of financial markets.

I welcome President Zoellick’s emphasis on the importance of the World Bank working with its multilateral partners – the United Nations and its specialized agencies, the IMF, the WTO, and regional development banks – in advancing an inclusive and sustainable globalization. He rightly emphasizes that “inclusive and sustainable globalization needs to be fostered by global institutions.”

This is the right message at the right time. The ILO is ready to continue making its contribution. In the three years since the World Commission on the Social Dimension of Globalization established by the ILO issued its report “A Fair Globalization: Creating Opportunities for All” (already translated into 16 languages), this vision has been widely endorsed by conferences and regional meetings at the highest level around the world including the United Nations Summit in 2005. One of the Commission’s main proposals that decent work should become a global goal of the multilateral system and not just an ILO objective has occurred.2

“We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including women and young people, a central objective of our relevant national and international policies as well as our national

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2 Statements at the highest level by the European Union Commission and Council, African Union, Organization of American States, Asian Development Bank, as well as the European Parliament and the Inter-Parliamentary Union, among others.
development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals."3

This commitment was reaffirmed in July 2006 at the high-level segment of the substantive session of 2006 of the United Nations Economic and Social Council.

The Ministers—in their mandate to advance development policy coherence—requested the whole multilateral system, including the funds, programmes and agencies of the United Nations system, and invited international financial institutions, including the World Trade Organization (WTO), to support efforts to mainstream the goals of full and productive employment and decent work for all in their policies, programmes and activities.

Since then the Heads of Agencies of the United Nations System Chief Executives Board for Coordination (CEB), which includes the Bretton Woods institutions, have jointly developed a Toolkit for Mainstreaming Employment and Decent Work. The ILO looks forward to working together with President Zoellick and Director-General designate Strauss-Kahn to use this toolkit to improve policy coherence for the shared goal of increasing decent work opportunities as one the main means of shaping an inclusive and sustainable globalization.

One of the issues we need to address together is establishing a global strategy for sustainable enterprise. Employers’ organisations, trade unions and governments at the 2007 International Labour Conference adopted a comprehensive statement on the role of the private sector in development.4 It provides a sound tripartite balance for policy advice on the environment needed to ensure that businesses are able to operate profitably and competitively while meeting their social and environmental responsibilities. The ILO would urge the Bank and the Fund to take on board this reasonable approach to promoting productive enterprise and to ensure that private sector development policies especially in the field of employment conditions reflect the societal benefits from sound regulations.

Amongst the top priorities in shaping a fair globalization is adapting to and mitigating climate change. We need a framework that balances the long-term costs of carbon emissions against the immediate costs of mitigation, which can attract broad country participation while providing a fair distribution of the costs and the opportunities involved is vital. The ILO, the World Bank and the IMF are working together as part of UN Secretary General Ban Ki-moon’s drive to pull together a system-wide approach to climate change. The specific contribution of the ILO is what we are calling a Green Jobs Transition Initiative. It is designed to promote sustainable enterprises and new quality employment, and also plan well in advance for dealing with the impact on enterprises, job losses and social consequences resulting from restructuring towards a reduced carbon economy. Again we look forward to working with our Bretton Woods partners under the umbrella of the system wide approach being developed by the United Nations.

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3 General Assembly resolution 60/1 of 16 September 2005