

Social Consequences and Responses to the Financial and Economic Crisis

Discussion paper for CEB presented by ILO Director-General Juan Somavia

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We are now facing one of the most important challenges that the United Nations has ever had. In the midst of an expanding socio-economic crisis, the likes of which the world has not known since the Great Depression, many are looking towards the United Nations. We should not fail them. A social and economic downturn is unfolding before our eyes. It can be addressed successfully with United Nations tools and policies.

A: What we know today

From financial to economic crisis

What started as a financial crisis has quickly become via the credit market a large scale crisis of the real economy progressively affecting enterprises, workers, families and households in virtually all countries. The United Nations projects growth in world output of 2 per cent in 2009, the IMF projects 3 per cent. It could get worse and it will be global.

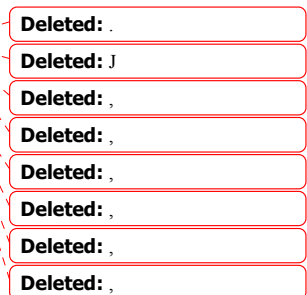
From the economy to people

Everything we know about past economic crises (from the Great Depression in the 1930s to the Asian crisis in 1997) shows that their social impact will be huge and long lasting: ~~job losses, incomes, wages and purchasing power declining, social spending affected, hunger increasing, houses lost, new investment deferred, international trade~~ slowed down. The highest price will be paid by the weakest and more vulnerable segments of society. There is fear that the economic downturn and looming recession will turn into a social recession. This process has already begun.

Unemployment and poverty set to rise

The ILO's preliminary estimates are that world unemployment could rise by 20 million reaching over 210 million during 2009. Furthermore, the already poor are likely to see their very low incomes squeezed further by still high food and fuel prices. Informal economy workers will increase. Middle classes throughout the world are also affected and uncertain, concerned particularly about the future of their pension systems, unemployment benefits and access to healthcare.

I am certain all members of CEB can give similar figures in their own areas of activity.



The crisis behind the crisis

We cannot forget that before the financial crisis set in there was already a major socio-economic crisis, with massive poverty, under employment, growth in inequality and difficult social conditions for large segments of the world population, in developing and developed economies. The benefits of globalization had not been widely or fairly shared and the backlash was already there. For many, this was globalization without a moral compass, which the financial crisis confirmed.

Underlying the benefits of globalization, there has been a growing sense in many quarters, that the global economy was becoming too unbalanced and out of sync. That no one was providing thoughtful guidance and oversight. Nobody seemed in charge. This became evident when the financial crisis exploded.

Lack of global governance

Trade talks are stalled; financial markets are on the brink; climate change continues and insecurity pervades the daily life of too many people, families and communities. Confidence in global institutions is at an all time low. Today, restoring the trust of people in governance ~~national and global~~ is essential. The United Nations can show the way forward by acting together.

The policies ~~or lack of policies~~ that led to the crisis, undervalued the role of governments, overvalued markets, particularly financial markets, and ignored the many warnings of growing imbalances.

In 2004 the ILO-convened World Commission on the Social Dimension of Globalization published a report under the title: “A fair globalization, opportunities for all” which was endorsed by the United Nations General Assembly in 2005. The main message then and now is that the sustainability of globalization hinges on a strong social dimension.

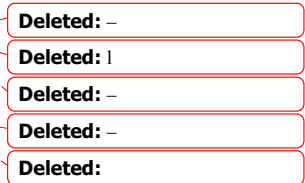
The United Nations must progressively develop an effective, dynamic and democratic framework for global governance on key socio-economic issues. Any reconstruction will have to find ways to develop policy convergence and policy coherence to integrate financial and economic, social and labour and environmental policies in a common sustainable development approach.

In order to keep open economies and open societies going, we must deepen our work together among relevant international organizations, to develop a common multilateral approach to a fair and sustainable globalization.

B: Rethinking priorities – resetting our policy base

The rapid spread of the crisis into the real economy and the lives of families and communities all over the world calls for urgent action to protect people and sustain the real economy. Money must work for people.

The UN, including the Bretton Woods institutions and the WTO, have an unprecedented opportunity to respond to the global socio-economic crisis with both,



short-term initiatives and a long-term integrated view of sustainable development requiring action in the following areas:

First: Immediate short-term initiatives

Economic policies: Short term measures are being taken to stabilize the financial markets. But that is not enough. Measures are required to stimulate the real economy through investment, sustainable enterprise promotion, particularly small businesses, productivity and employment enhancement: a rescue plan that can salvage the investment – production – decent work – growth cycle.

Social policies: Protecting people from the impact of a social recession calls for a comprehensive package that keeps health and education services functioning, extends unemployment insurance, launches and expands emergency employment programmes, protects the pension systems, ensures affordable housing and stabilizes energy and food prices. Fiscal room to invest in these programmes is essential for sustainable recovery. We cannot afford today the same adjustment policies that the IMF imposed during the Asian crisis. We need countercyclical policies.

Environmental policies: Now is the time to provide new incentives to enterprises and local communities to invest in the gradual transition to renewable sources of energy. Both in rural areas and urban slums it would stimulate investment and innovation, facilitate job creation and improve living and working conditions.

Second: Action in the medium term: opportunity and protection

The time has come for designing and establishing a socio-economic floor of opportunity and protection premised in coherent and coordinated action across the comprehensive mandates of UN programmes, funds and agencies, including the Bretton Woods institutions and the WTO. It should be a policy coherence initiative to deliver as one on peoples' basic social and employment needs at the country level.

A socio-economic floor of opportunity and protection for people would combine a minimum package of social rights and guarantees in the areas of health, education, employment, social protection, housing and civil rights. It would at the same time constitute a platform to help organize and empower people and provide them with opportunities and access to move up the economic and social ladder, taking advantage of the dynamics of markets.

We already know that the pace of implementation of MDGs is too slow in many regions and countries. The crisis may jeopardize hard-won gains. The dynamism and sense of hope around the MDGs has been weakening. New impetus is necessary in order to accelerate the commitment to achieving the MDGs, by placing them in the wider framework of a socio-economic floor that can be benchmarked and the progress of which can be regularly monitored at the country level. If we can move along these lines, it will provide an important basis of legitimacy to globalization.

The Report of the World Commission on the Social Dimension of Globalization already stated: "There is a need for donors and international and regional financial

institutions to contribute to the development of national social protection systems in developing countries and to invest in the retraining and economic restructuring which can promote more equitable adjustment and a fair distribution of the gains from globalization. Achieving progress in this area will clearly require an increase in international solidarity. A certain minimum level of social protection needs to be accepted and undisputed as part of the socio-economic floor of the global economy.”

Third: Building global policy coherence around the economic, social and environmental dimensions of sustainable development

Looking together into the synergies, mix and sequencing of the various policy dimensions should be the essence of convergent multilateral action to tackle the crisis. Despite the crisis and precisely because of the nature and impact of the crisis, the balance and convergence of all three dimensions of sustainable development needs to be addressed together, in an integrated and comprehensive manner.

Efforts and achievements by many individual international organizations members of CEB would have a much greater impact if their policies were integrated into a coherent approach around commonly agreed objectives. CEB has taken positive steps in this direction, such as on gender, climate change, employment and decent work. Other priority areas need to be identified for policy convergence and **concerted** action.

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The task focuses on designing integrated policy tools, advising countries along convergent policy lines and promoting cooperation among countries to share knowledge, learn from experience and build support for global governance.

Fourth: Fostering a new balance between governments, markets, society and individuals

Markets have brought dynamism and innovation to the world economy. Trade has injected new impetus. But markets have also shown their limits. Combining market forces with a modern regulatory function of the State, plus a vibrant democratic society with organization and voice, attentive to the needs of families and individuals, can provide the overall policy balance needed for a truly fair and inclusive globalization.

The capacity of governments has been reduced over the past decades with the belief that markets could deliver better development results on their own. It is now painfully clear that inclusive markets function best alongside a strong State. It is equally clear that States work best where citizens’ rights are also strong, ensuring accountability and the rule of law.

The multilateral system should identify rebuilding of State institutional capacity as a priority objective of development cooperation and emergency assistance. The forthcoming Doha Conference on Financing for Development brings a timely opportunity for focussing development aid on these challenges. Meeting the financial commitments made in Monterrey and subsequently is critical, in spite of the financial slowdown in richer countries.

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C: An opportunity for creative multilateral action

Crises are catalysts for new thinking. This was the case after the Great Depression with President Roosevelt's New Deal policies, after World War II which instituted the world governance institutions of today, but also after the 1997 Asian countries, when many countries introduced or extended social security schemes including unemployment insurance. Many also took the decision to run large balance of payments surpluses and build up huge reserves to ensure that they would not have to undergo IMF loan conditionality.

First and foremost the multilateral system must show its responsiveness to the needs of people. The United Nations can be a key partner with member States and other actors ranging from parliamentarians, to employers' and workers' organisations and civil society groups, local authorities, women and youth organizations, to promote a coherent policy agenda that responds to the crisis and provides a sustainable platform for long-term global governance for the benefit of people. They can all meaningfully contribute to knowledge, debates and action.

Within the UN system, including the BWIs and the WTO, we must build policy alliances -not just operational and delivery coordination- across funds, programmes or agencies working together to achieve the commonly agreed international development goals, responding to national priorities. This could powerfully illustrate the capacity of the system to work together to produce joint and measurable outcomes for people and set examples for future collaborative work.

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The world expects the UN system to act. It has the legitimacy of universality. It should provide a policy framework for a global integrated response to a crisis which is no longer just a financial crisis but one that is unfolding rapidly into direct consequences in the daily lives of people.

The solutions to the global economic downturn we are facing do not lie solely in financial policies. They require an integrated economic, social and environmental outlook that only the UN system can provide.

This is the time for us to be up to the task.