Statement by

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1. The collapse of the WTO Ministerial Conference in Cancun represents another challenge for the recovery in the global economy, and it reinforces the WEO assessment that the recovery remains “tepid” and the balance of risks rests on the downside. The main cause, however, is economic performance in the industrialized countries, especially the continuing stagnation in Japan and weakness in the major European economies. Yet policy sections of the WEO, Chapters II and III, focus exclusively on developing countries.

2. This is at odds with what is really required to revive growth in the global economy in order to achieve the Millennium Development Goal of halving poverty by 2013 and to accelerate economic development in general. As the report itself acknowledges, current growth rates in sub-Saharan Africa and other low-income countries is well below the levels required to achieve the MDGs. From this perspective it is disappointing that there is only passing reference in the WEO to the issue of enhanced market access for developing country exports and to the fact that macroeconomic policies in the industrialized countries “remain far from supportive of development.”

3. Instead of addressing this fundamental issue the report focuses on issues that can have only a small impact on raising global growth and making it more supportive of development. The onus is placed on East Asian economies to reduce their dependence on the US economy, rely more on domestic demand and revalue their currencies. They are also being asked to reduce their current account surpluses and their foreign exchange reserves. While these are valid issues for discussion they are framed in an unbalanced way, especially when there is no recognition of the problems of adjustment, including the social dimension, which will invariably be encountered in following these prescriptions. This is a serious cause for concern when we see that these prescriptions coincide with the phobia that currently preoccupies protectionists in the industrialized countries.

4. This unbalanced treatment also extends to the discussion of the impact of G-3 exchange rate volatility on developing countries. The thrust of the argument is that the impact is slight and that, in any case, attempts to reduce exchange rate volatility would be futile because the basic problem would re-emerge in the form of interest rate and output volatility. This merely sidesteps the key issue of the need to improve policy coordination among industrialized countries and to make them more supportive of development. Moreover, as the report acknowledges, while the effect is slight on average, the fact remains that it constitutes an important issue for certain developing countries. Similarly, although it is true that developing countries could reduce the impact of G-3 exchange rate volatility through reducing trade and finance mismatches, this does not obviate the fact that they would be better off with less volatility.

5. The discussion of public debt in emerging markets does recognise that it is difficult to generalise on what constitutes a sustainable level of debt. It acknowledges that country-specific circumstances are important, including the fact that temporary increases in debt may be justified in some cases. It also notes the significant differences between Latin American
and Asian countries with respect both to the level of public debt and the capacity to apply countervailing measures when debt levels threaten to become unsustainable. Nevertheless, it ends with the basic message that public debt in emerging markets is “too high” and should come down from the current average level of 70 per cent of GDP to about 25 per cent. The WEO, however, does not deal adequately with the difficult adjustment issues that are involved. There are likely to be serious problems of political and social sustainability in any attempt at a rapid reduction of debt levels. A key policy recommendation to the effect that fiscal rules could be adopted as a means of strengthening the credibility of fiscal policy is too cursory to be convincing. It provides no empirical evidence of what the effects will be and ignores the fact that the introduction of such fiscal rules (in effect the counterpart of central bank independence) will further aggravate the democratic deficit in the process of formulating macroeconomic policies. The level of public debt and other macroeconomic targets are not ends in themselves but only means for achieving wider social objectives. As such, there should be more participatory processes for policy formulation that involves stakeholders rather than a further expansion of unaccountable technocratic policy space.

6. The WEO also includes references to the expected financial and budgetary implications of aging populations, particularly in industrialized economies as a result of the projected growth in health care and pension costs. The reference to the April 2003 WEO discussion of labour market institutions (p.22) and the call for structural reforms to improve the competitiveness of labour markets in Europe, leads us to reiterate our concerns that the more classic IMF argument regarding reform as defined as “deregulation” leading to less generous unemployment insurance, “lower” levels of unionization, and “less” employment protection. Labour market reform should also, however, support poverty reduction goals and contribute to economic growth and financial and social stability. Such reforms could strengthen the positive impact of labour market institutions/policies to promote employment and social protection and to enhance the capacity of trade unions and employers’ organisations to participate more effectively in the reform process. ILO welcomes the reference on page 35 to “encouraging closer cooperation between social partners” as regards efforts to achieve wage moderation in Hungary. The social partners also can play a significant and constructive role in developing and implementing labour market reforms in many other countries. Such labour market issues provide an opportunity for enhanced dialogue between the IMF and ILO.

7. The World Bank Report on Poverty Reduction Strategy Papers: Progress in Implementation identifies extremely important and timely proposals for strengthening the PRSP process. The ILO is especially committed to working with the Bank and the Fund to strengthen the participation and effective contribution of trade unions and employers organizations in enhancing social dialogue in support of poverty reduction policies. We agree with the assessment that participation in PRSP formulation has tended to be “broad” rather than “deep”—and we are committed to strengthening our collaboration with the Bank and Fund to help ensure that participation is more effectively integrated within the PRSP policy formulation and implementation process. In this regard, we also fully concur with the view that the macroeconomic framework must be open to public debate and that governments should provide an explicit forum for such a dialogue—and this should include participation of the social partners.

8. The ILO welcomes the outcomes of the High Level Forum on Harmonization and recognizes the need to improve aid effectiveness and to scale-up development impact within its own areas of competence. The Note from President Wolfensohn refers to internal Bank reforms in this area and we look forward with particular interest to the Bank’s proposed
“modernization of environmental and social safeguard policies” with a view to having those policies integrated more effectively with macroeconomic policies as this would promote a timely and positive contribution to the achievement of the sustainable development outcomes in Johannesburg.

9. President Wolfensohn’s Note also draws attention to the vital role of “pro-poor trade policies”. The ILO and its tripartite constituents, especially through the work of the World Commission on the Social Dimension of Globalization, are well aware of the employment and social costs and benefits of adjusting to trade liberalization and we welcome the proposed initiative by the Bank and Fund to help countries deal more effectively with the full range of trade adjustment challenges. In this regard, the ILO is convinced that social dialogue and efficient labour market institutions are a prerequisite for countries to take full advantage of enhanced employment benefits from increased trade while also providing adequate safeguards for those individual workers who are required to pay directly, as well as through the impacts on their local communities, a significant portion of some of the “costs” of such liberalization.

10. The ILO also takes note of the Report on Global Monitoring of Policies and Action for Achieving the MDGs and Related Outcomes”. The Report draws attention to the importance of increasing policy coherence and refers to the opportunity to build upon the existing key vehicles for mandated assessments—IMF Article IV Consultations, DAC peer reviews, and the WTO Trade Reviews. The ILO supports such an approach, but is convinced that such policy coherence should not be limited to macroeconomic, aid and trade policies, but in line with the Outcomes of the World Summit on Sustainable Development in Johannesburg, be extended to include relevant environmental and social policies.

11. The specific points we have made concerning the need for a better balance in the discussion of policy issues affecting the global economy springs from a deeper underlying concern. This relates to the serious deficiencies in the current structures and processes for the governance of the global economy wherein the developing world has too little voice and influence in shaping the rules and policies affecting their interests. It is imperative to increase efforts to redress this situation. We encourage the Bank and Fund to continue their efforts to make progress in this area.

12. It is significant that the Annual Meetings are taking place in the Arab region for the first time. Despite all the daunting problems, some of the countries such as the UAE, are performing well in terms of growth and social progress. But of course these countries could perform much better were it not for the conflicts that drain its resources. We welcome the focus by the Bank on one of the most important problems facing each and every country in the region: employment. The Report “MENA’s Employment Challenge in the 21st Century: from Labour Force to Job Creation” provides a good basis for a policy agenda for combating unemployment and managing the labour markets. The ILO has been assisting the countries of the region in designing policies and creating institutions that promote employment-intensive growth. This is an area where the multilateral system, working together, can make a difference in assisting these countries to realize their ambition of growing at 6% in order to absorb the 5-6 million new entrants to the labour market each year.

Dubai, 20 September 2003