

## DECENT WORK AND FAIR GLOBALIZATION: A GUIDE TO POLICY DIALOGUE

### Reforming the Global Financial System for Full Employment and Decent Work

Global responses to the economic crisis have given impetus for reform on long-standing systemic deficiencies in the current global economic and financial governance. Many of these reforms can directly and indirectly impact progress toward achieving full productive employment and decent work for all. GDP growth alone is not sufficient; one of the most important indicators of successful economic development is to ensure decisive progress on **aligning wages with productivity growth**. There is a need for much more public debate at national and international levels on what should be the set of policies and institutions required in different contexts to reach that goal while also correcting systemic income inequalities associated with globalization. Some of the many important new ideas being proposed include the following:

#### *International tax issues*

Even before the global economic crisis, a growing international movement to recoup hundreds of billions of dollars in lost public revenues by stemming illicit capital flight and tax evasion has successfully been pressuring governments to step-up international cooperation on tax and to close down offshore centres and so-called “tax havens”. In the wake of the great recession, after the rich countries have had to run up large fiscal deficits, there is growing political will to create cooperative international measures needed to combat tax evasion, create new international taxation level agreements to prevent “race to the bottom” through **tax competition**, and explore innovative financing mechanisms. Some important developments include: establishing an UN Intergovernmental Committee on Tax Matters; ending the practice of transnational corporations manipulating their accounts through distorted “transfer pricing” to show their profits in countries where they are taxed least heavily, rather than where they are actually earned; and establishing a **Financial Transaction Tax (FTT)** – on the trading of currencies, bonds, equities and derivatives that

could be used for new forms of development finance and public investment.

#### *A new international debt architecture*

As a short term response to fiscal constraints facing many developing countries as a result of the economic crisis, there are proposals for an **unconditional debt moratorium** on all official debts for all low-income countries or **unconditional debt cancellation** that would not be drawn from existing and new ODA resources. And in the longer term, a more fundamental reform would be to create a **fair and equitable debt workout mechanism** that would allow debtor countries in difficulty to declare a unilateral “standstill” on debt payments, with creditors having to abide by the terms for debt restructuring decided by an independent arbitration panel.

#### *The balance-of-payments constraint*

An essential dimension of international financial reform is related to the question of countries’ trade deficits. The conventional approach to the “balance-of-payments constraint” places limits on what developing countries can achieve without facing a balance-of-payments crisis. Countries with large trade deficits are told to cut them back but without comparable pressure on large surplus countries to take corrective actions. The burden of adjustment is entirely on the deficit countries. If a country cannot boost its export earnings sufficiently to close its trade deficit, it depends on capital inflows to make up the difference. If these are not sufficiently forthcoming or the deficit is prolonged for too long, the country can be compelled by the IMF to reduce its imports and reassure foreign investors by forcing a decrease in import demand through contractionary policies (fiscal and monetary tightening), even though such policies lead to job losses and cut-backs in public services, as well as exacerbate a global slowdown.

One possible solution to this asymmetric treatment for deficit and surplus countries is to move towards a **new**

**global reserve system.** As originally proposed by John Maynard Keynes over 80 ago, adjustments to these imbalances could be smoothed with the creation of a **new international reserve currency** that would act as a buffer to compensate deficit countries for the gap being created by foreign exchange reserves “hoarded” in countries that maintain structural surpluses. Another more equitable (“symmetric”) option is to create new international disciplines by which surplus countries are also compelled to take steps to diminish their surpluses, and by helping to finance productive investment in the deficit countries.

Creating a new international currency could also help solve the inevitable problems with using any one country’s *national* currency as an *international* reserve currency (the “**Triffin dilemma**”). It could also help relieve the problem of countries’ hoarding international reserves for purposes of self-protection from future financial crises rather than spending them on productive employment opportunities. Reserve accumulations more than doubled in the decade after the East Asian crisis, rising from 5.6 percent of world GDP in 1997 to 11.7 percent in 2007. When many countries leave their earned reserves unspent, it creates a deficit in global aggregate demand. Thus **the system is incompatible with global full employment.** And the very low interest developing countries earn on their reserves of US dollars creates a large opportunity cost in the sense that the money could have otherwise been spent on much more profitable or productive purposes. Therefore, creation of a new global reserve currency could help developing countries avoid such drawbacks. One avenue is to explore how a more extensive and equitable emission of Special Drawing Rights (SDRs) could be used for development purposes, perhaps through a different institution than the IMF, such as a “Global Reserves Bank” proposed by the “Stiglitz Commission”.

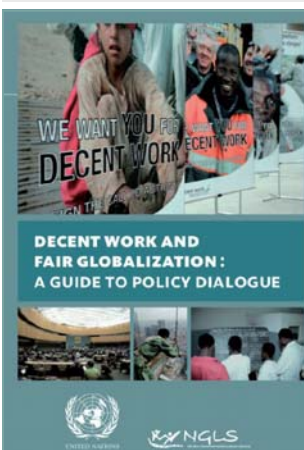
A related alternative would be a more gradual, “bottom-up” approach through existing and new regional

initiatives involving currency swap arrangements and pooling of reserves that could enable the issuing of a new reserve asset (a “*regional currency*”) that could be used at regional or even global levels.

### ***International agreements on exchange rate management***

A related solution to the problems mentioned above would involve creating a multilateral agreement for managing exchange rates so that the levels of “real” exchange rates among trading partners remain stable at a sustainable level. Much of the erratic swings in exchange rates that have plagued countries and often led to financial crises and major job losses in recent years is due to the “herd behaviour” of groups of speculative currency traders either buying or selling various currencies *en masse* at the same time on global currency markets. So, after 25 years of neoliberal policies insisting on market-based exchange rates, the task of managing exchange rates should be returned to governments.

However, there are limits to what individual monetary authorities can do on their own – thus the call for international cooperation by creating international agreements on exchange rate levels. One idea is to have the “nominal” exchange rate adjusted periodically using inflation differentials as the main guide (so the “real” exchange rate remains stable), and the value of each currency would be anchored to a new or artificial global currency and coordinated “symmetrical” interventions from member central banks. With less movements in value, such a new system would by and large defeat the arbitrage strategies of today’s currency speculators while bringing greater financial stability and security for jobs. And here, too, regional exchange rate agreements might be the most realistic way forward, with **currency swap arrangements** already part of regional agendas under construction in Latin America and Asia.



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