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The ILO's standards system: An example of good governance for reforming the international financial architecture

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Introduction

The international financial and economic crisis has recast the longstanding debate on the governance of the international financial architecture (Breton Woods II and possible establishment of an international financial authority). Leading policy-makers and economists have been increasingly questioning the results achieved by the largely uninstitutionalized system which has prevailed since the break down of the Bretton Woods mechanism (Eichengreen, 1994; Eatwell and Taylor, 2000; Stiglitz, 2001 and 2002; Krugman, 2000; World Commission on the Social Dimension of Globalization, 2004). Consequently, calls have been made to build an "international financial architecture" which may allow for the benefits of globalization to be more equitably distributed between industrialized and developing countries and between different social segments within countries (United Nations, 1999; World Commission on the Social Dimension of Globalization, 2004). Closely related to such concerns are calls for a more transparent and participative system with regard to developing countries (De Gregorio et al., 1999; Verweij, 2003; Gold, 1996; World Commission on the Social Dimension of Globalization, 2004). The faith in the infallibility of markets, very much prevalent during the mid-80s, seems today to be a thing of the past, while a new vision emphasizing the institutional structures surrounding the marketplace and ensuring its efficient functioning seems to prevail. Indeed, the latest crisis, along with those that preceded it, has brought about a realization that more needs to be done at the international level in terms of reinforcing existing or establishing new institutions that can guarantee a more robust financial system which is fair for all.

The proposals made to create an international organization which would undertake the supervision/regulation of global financial markets on the basis of standards (Bergsten, 1994; Giovanoli,2000; Padoa-Schioppa et al., 1994)[1] - the most prominent being the

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[1] As early as 1995 Bergsten suggested the creation of a new International Capital Markets Supervisory Authority building on the pioneering efforts of the EU in this area. Drawing on the experience of the EU, Giovanoli suggested in 2000 an approach which builds upon the current practices of the Basel Committee on Banking Supervision and the Bank for International Settlements. It would not entail the creation of a supervisory organization but rather a process of consensus-building through committees of national experts. Padoa-Schioppa and Sacomani proposed the creation of an international central banking authority to buttress the emergence of global financial markets by upholding the rule of law at the international level. This institution would perform the functions of monetary management, supervision of payment systems and banking supervision at an international scale. It should be

one formulated by Eatwell and Taylor in 2000 for the creation of a World Financial Authority – bring to mind the efforts made in the early twentieth century for the establishment of an international organisation, the ILO, to promote the harmonization of conditions and terms of employment among all countries which competed at the time for a share of international trade. The ILO and in particular its mechanism for the adoption and supervision of international labour Standards, constitutes an example of good practice from the point of view of governance which might be useful in this context.

The current deficits: absence of representation and transparency

The ILO structures, which have been functioning for almost a century now, illustrate the alternative ways in which an institutional framework could be designed so as to address the current deficits of the financial governance. These deficits can be summed up, as will be seen below, as the absence of democratic legitimacy, stakeholders' representation and transparency:

1. adoption of financial standards by opaque technical bodies with narrow membership representing the few countries where major financial centres are located (e.g. Basel Committee on Banking Supervision, International Association of Insurance Supervisors, etc.); dominant influence of the G10/G7 within the IMF;
2. no voice for developing countries which have no other choice but to implement the standards emanating from these bodies without any participation whatsoever in their formulation; as characteristically put by the Governor of the People's Bank of China , "the monopoly of a handful of developed countries on the rule-making in the international financial field must be changed" (Dai, 2000);
3. no accountability to parliaments: e.g., although the "gentlemen's agreements" (Norton, 1995; Vaz-Yoshiura, 1994) adopted by the Basel Committee on Banking Supervision do not necessitate any ratification by Parliaments, since they are not legally binding in the sense of being enforceable, the members of the Basel Committee – independent central bank governors of the G10 – have the power, by virtue of their independent status, to implement these negotiated agreements directly and without parliamentary involvement;

composed of central bank representatives rather than government representatives and should have rule-making authority at an international level. The authors see the Bank for International Settlements as the ideal entity for such a task, since this is the institution where regular meetings of the G-10 central bank governors have been held to review developments in foreign-exchange and financial markets as well as the international banking and payment systems. More recently, Eatwell and Taylor developed a fully-fledged proposal for the creation of a World Financial Authority bringing together the Basel Committee, International Organization of Security Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS) to serve as an effective regulator of global financial markets. Its primary task would be to manage systemic risk and hence enhance the stability and efficiency of international financial markets.

4. undue reliance on mathematical modelling and "objective" risk assessments in formulating standards for financial supervision, at the expense of dialogue with stakeholders on their perception of financial risks and the appropriateness of measures for their control;
5. close proximity to specific interest groups and no corresponding channel of communication to stakeholders' organizations expressing the views of the lay public and tax payers.

The ILO's standards system: an example of good governance

The ILO's structures for the adoption and supervision of standards, as established in the ILO Constitution, are firmly entrenched in the principles of participation, transparency, representation and universality. Thus, they provide solid safeguards able to address the deficits of the current financial architecture. In particular reference should be made to the following principles:

1. universality, meaning not just near-universal membership, but also the idea that the aims and purposes of the ILO and the action that it takes must correspond to the needs of all people throughout the world, whatever social or economic regime exists in their countries (this approach has characterized recent instruments like the Maritime Labour Convention, 2006 (MLC) or the Work in Fishing Convention, 2007 (No. 188) which allow for their flexible or gradual implementation by all member States at different stages of development); as noted by the World Commission on the Social Dimension of Globalization "there should be […] a more open and flexible approach to the formulation of financial standards and policy guidelines, one that is more sensitive to the different circumstances and needs of developing countries" (World Commission on the Social Dimension of Globalization, 2004, para. 407);
2. tripartism and dialogue; in the words of the ILO Director General, "our tripartite character ensures a wider representative base and ensures that the work of the ILO, notably its standards, is informed by the experience and views of those directly involved in the production process" (ILO, 2004, p. 52);
3. democratic accountability (articles 3(1) and 4 of the ILO Constitution); governments are under an obligation to submit newly adopted conventions and recommendations to national Parliaments and report back to the ILO, thus ensuring democratic debate, information dissemination and public awareness-raising over the issues covered in ILO standards;
4. transparency, representation and participation permeating every dimension of the standards mechanism including the adoption and supervision of standards; e.g., ILO conventions and recommendations are adopted on the basis of a highly participatory process of debate and discussion, through a two-thirds majority vote within a quasi-parliamentary framework in a body with near-universal membership and with the participation of not only government but also employer and worker delegates from all ILO member States; transparency goes so far as publishing a detailed record of the votes cast by each delegate;

5. an appropriate balance between rights and freedom, not only in substance (rights-based approach to development) but also in process; the ILO has long-standing experience and expertise in striking a wise combination between soft law, binding obligations and institutionalised mechanisms, with a view to effectively promoting the objectives spelled out in its Constitution (article 19 of the ILO Constitution, Committee on Freedom of Association, 1998 Declaration on Fundamental Principles and Rights at Work, Maritime Labour Convention, 2006, 2008 Declaration on Social Justice for a Fair Globalization). Such examples and experience can serve as useful guidance for a reasonable and effective use of soft law in a truly cooperative international framework.

Conclusion

The statement made by the World Commission on the Social Dimension of Globalization as early as 2004 constitutes a strong reaffirmation of the principles on which the ILO is built. These principles remain relevant in the current context of the financial and economic crisis:

“Any reform of global governance must be inspired by our vision of a fair and inclusive globalization. It must promote universal values and norms endorsed by the international community such as the rule of law, respect for human rights and fostering of democracy. It should contribute to the achievement of social and economic goals embodied in the Millennium Declaration and other key international agreements. The reform proposals should strengthen the global legal and institutional infrastructure for promoting growth, equity, human development and decent work. They should seek to enhance the representative, participatory, transparent and accountable character of global institutions. They should give voice to all men and women to articulate their concerns and interests. They should mobilize the energy and commitment and sense of solidarity and responsibility of key actors of the global community. A reform of global governance on this scale is clearly required, one that transforms the process and substance of globalization to meet the aspirations of people throughout the world.” (World Commission on the Social Dimension of Globalization, 2004, para. 358)

This note pinpointed those elements in the ILO structures and processes for the adoption and supervision of international labour standards which could provide useful input to current debates about ways to improve the architecture of the international financial system. It aimed to illustrate the alternative ways in which an institutional framework could be designed and set in place so as to ensure a more stable and fair international financial system. At the very least, it aimed to demonstrate that participative, transparent, representative and universal decision-making structures for the adoption of standards are available and have been functioning for almost a century now in an area which is not so dissimilar from that of financial regulation. The views expressed above rely on a belief that the institutional memory of the ILO, as this organization celebrates its 90th anniversary, might prove to be a valuable source of knowledge for the future and that open dialogue and the sharing of experiences is the best way to arrive at a fair globalization.

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Further resources

International Labour Conference: Committee of the Whole on Crisis Responses. Session 4 - The role of international labour standards in crisis response; the standards package - 4 June 2009

- Draft wrap-up points 4 - The role of international labour standards in crisis response; the standards package (pdf 67 KB), Committee of the Whole on Crisis Responses, ILC
- Brief 4 - The role of international labour standards in crisis response: the standards package (pdf 32 KB), Committee of the Whole on Crisis Responses, ILC

International Labour Organization: International Labour Standards