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Department of Economic and Social Affairs

The Global Social Crisis

Report on the World Social Situation 2011

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Department of Economic and Social Affairs

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Preface

Over the period 2008-2009, the world experienced its worst financial and economic crisis since the Great Depression of the 1930s. In 2009 global output contracted by 2 per cent. Since then, the global economy has bounced back, due mainly to unprecedented coordinated actions by leading economies with fiscal and monetary measures. But this recovery has been uneven and still remains fragile.

Global unemployment rose sharply from 178 million persons in 2007 to 205 million in 2009. The rapid rise in unemployment has triggered an increase in vulnerability, especially in developing countries without comprehensive social protection. Estimates suggest that between 47 million and 84 million more people fell into, or remained trapped in, extreme poverty because of the global crisis.

The economic crisis was preceded by the food and fuel price hikes in 2007 and 2008. According to the FAO, the number of people living in hunger in the world rose to over a billion in 2009, the highest on record. These multiple crises have set back the progress many countries have made towards achieving the internationally agreed development goals, including the Millennium Development Goals.

This *Report on the World Social Situation* explores the ongoing adverse social consequences of the crisis. The global economic downturn has had wide-ranging negative social outcomes for individuals, families, communities and societies, and its impact on social progress in areas such as education and health will only become fully evident over time. During times of financial and economic crisis, households often adopt coping strategies, such as making changes in household expenditure patterns; however, these can negatively influence education, health and nutrition outcomes, which may lead to lifelong deficits for the children affected and thus perpetuate the intergenerational transmission of poverty.

Given the fragility of the economic recovery and the uneven progress in major economies, social conditions are expected to recover only slowly. The increased levels of poverty, hunger and unemployment will continue to affect billions of people for years to come.

Meanwhile, austerity measures in response to high government debt in some advanced economies are also making the recovery more uncertain and fragile. Increased pressure for fiscal consolidation and new pressures in response to such debt have severely limited fiscal and policy space in developed economies, and many developing countries, especially those under International Monetary Fund programmes, are also under pressure to cut public expenditure, undertake austerity

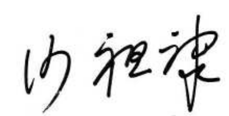
measures, reduce the scope of government action and further liberalize labour markets.

A key conclusion of this Report is that countries need to be able to pursue countercyclical policies in a consistent manner. Such policy space should be enabled by changing the fundamental orientation and nature of policy prescriptions that international organizations impose on countries as conditions for assistance.

It is essential that Governments take into account the likely social implications of their economic policies. It has been shown, time and again, that economic policies considered in isolation from their social outcomes can have dire consequences for poverty, employment, nutrition, health and education, which, in turn, adversely affect long-term sustainable development. The disconnect between economic policies and their social consequences can create a vicious circle of slow growth and poor social progress. Universal social protection systems and active employment generation programmes should become permanent measures, not merely temporary components of national crisis response measures.

At the same time, social progress, one of the three pillars of sustainable development, is particularly important as governments and stakeholders gear up for the 2012 United Nations Conference on Sustainable Development (Rio + 20). As Secretary-General for the Conference, I understand the need for social investments to be accorded priority in recovery strategies and development policies. Increasing expenditures to expand social protection and improve access to education and health services will help ensure more inclusive development with stronger domestic demand and a more solid foundation for future growth.

This *Report on the World Social Situation* identifies the immediate and long-term social impacts of the current crisis and strongly underscores the need for inclusive social policies. As challenging as it may be, the crisis offers an opportunity for achieving social progress by making universal social protection a reality, revisiting the social aspects of globalization and ensuring more inclusive and sustained growth, very much in line with sustainable development's commitment to achieving economic development, social progress and environmental sustainability.



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The following symbols have been used in tables throughout the *Report*:

Two dots (..) indicate that data are not available or are not separately reported.
A dash (—) indicates that the item is nil or negligible.
A hyphen (-) indicates that the item is not applicable.
A minus sign (-) indicates a deficit or decrease, except as indicated.
A full stop (.) is used to indicate decimals.
A slash (/) between years indicates a statistical year, for example, 1990/91.
Use of a hyphen (-) between years, for example, 1990-1991, signifies the full period involved, including the beginning and end years.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Reference to dollars ($) indicates United States dollars, unless otherwise stated.

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The following abbreviations have been used:

AIDS	acquired immunodeficiency syndrome
ECA	Economic Commission for Africa
ECLAC	Economic Commission for Latin America and the Caribbean
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GDP	gross domestic product
GFSR	Global Financing Stability Report
GNI	gross national income
GNP	gross national product
HIPC	heavily indebted poor countries
HIV	human immunodeficiency virus
ILO	International Labour Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MONA	Monitoring of Fund Arrangements
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility
SBA	Stand-By Arrangements
SDRs	Special Drawing Rights
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
WEO	World Economic Outlook
WHO	World Health Organization

For analytical purposes, countries are classified as belonging to either of two categories: more developed or less developed. The *less developed regions (*also referred to as *developing countries* in the *Report)* include all countries in Africa, Asia (excluding Japan), and Latin America and the Caribbean, as well as Oceania, excluding Australia and New Zealand. The *more developed regions* (also referred to as *developed countries* in the *Report*) comprise Europe and Northern America, plus Australia, Japan and New Zealand.

The group of *least developed countries* comprises 48 countries (as of 31 May 2011): Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia. These countries are also included in the less developed regions.

In addition, the *Report* uses the following country groupings or subgroupings:

Sub-Saharan Africa, which comprises the following countries and areas: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Comorian Island of Mayotte, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia and Zimbabwe.

East Asia and the Pacific, which comprises the following countries and areas: American Samoa, Cambodia, China, Fiji, Indonesia, Kiribati, Democratic People's Republic of Korea, Lao People's Democratic Republic, Malaysia, Marshall Islands, Micronesia (Federated States of), Mongolia, Myanmar, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Thailand, Timor-Leste, Tonga, Vanuatu and Viet Nam.

South Asia, which comprises the following countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

Middle East and Northern Africa, which includes the following countries and area: Algeria, Djibouti, Egypt, Iran (Islamic Republic of), Iraq, Jordan, Lebanon, Libyan Arab Jamahiriya, Morocco, Syrian Arab Republic, Tunisia, Occupied Palestinian Territory and Yemen.

Eastern Europe and Central Asia, which includes the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, the former Yugoslav Republic of Macedonia and the successor countries of the former Union of Soviet Socialist Republics, comprising the Baltic republics and the member countries of the Commonwealth of Independent States. These countries are also referred to as *transition economies* in this *Report*.

*Heavily indebted poor countries (*as of 11 April 2011*)*: Afghanistan, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Kyrgyzstan, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, United Republic of Tanzania and Zambia.

Landlocked developing countries: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, Malawi, Mali, Mongolia, Nepal, Niger, Paraguay, Republic of Moldova, Rwanda, Swaziland, Tajikistan, the former Yugoslav Republic of Macedonia, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

Small island developing States and areas: American Samoa, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, British Virgin Islands, Cape Verde, Commonwealth of the Northern Mariana Islands, Comoros, Cook Islands, Cuba, Dominica, Dominican Republic, Fiji, French Polynesia, Grenada, Guam, Guinea-Bissau, Guyana, Haiti, Jamaica,

Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia (Federated States of), Montserrat, Nauru, Netherlands Antilles, New Caledonia, Niue, Palau, Papua New Guinea, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Singapore, Solomon Islands, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu, United States Virgin Islands and Vanuatu.

Overview

Beyond recovery: addressing the social crisis

Over the period 2008-2009, the world suffered the worst financial and economic crisis since the Great Depression of the 1930s. The rapid global economic downturn severely disrupted economic growth worldwide and caused significant setbacks in the progress made towards achieving the Millennium Development Goals and the other internationally agreed development goals. According to United Nations estimates, the annual growth rate in global output fell from about 4 per cent during the period 2006-2007 to 1.6 per cent in 2008; the rate of growth in output dropped even further in 2009, to -2 per cent, when 95 countries experienced declines in average per capita income.

Unemployment rose sharply to 205 million people in 2009 from 178 million in 2007. According to the latest estimates by the International Labour Organization (2011), global unemployment remained high and unchanged in 2010. Increased unemployment has been the dominant social impact of the crisis in developed economies, but the employment situation in developing countries has been less obvious. While the informal economy and peasant agricultural sector have absorbed much of the impact of formal sector job losses, much larger numbers of workers are now subject to more vulnerable employment in developing countries.

The loss of jobs means not only loss of incomes but also an increase in vulnerability, especially in developing countries without comprehensive social protection. Various estimates suggest that between 47 million and 84 million more people fell into, or were trapped in, extreme poverty because of the global crisis (United Nations, 2010a, table I.3).[1] The global financial crisis came immediately after food and fuel prices had risen sharply. As a result, the number of people living in hunger in the world rose to over a billion in 2009, the highest on record.

Although the financial crisis did not originate in the developing countries, their economies, especially those more integrated into international financial markets, were not immune to the financial turmoil. They were hurt through a variety of channels, including collapsing trade and commodity prices, capital flow reversals, higher costs of borrowing, declining remittance incomes and strains on

1 These estimates refer to people living on less than $1.25 per day and are similar to those of the World Bank, which estimated that about 64 million additional people had become poor by 2010 compared with the situation that would have existed had the crisis not taken place. See World Bank and International Monetary Fund (2010).

Box 1:

Blinding optimism

The global financial and economic crisis came as a surprise for many international organizations. For example, the International Monetary Fund (IMF), which monitors global macrofinancial developments, maintained an optimistic view, and took some time to realize that the crisis would soon engulf the whole world. A month before the first tremors of the subprime mortgage crisis in the United States of America were felt, the IMF noted: "The strong global expansion is continuing, and projections for global growth in both 2007 and 2008 have been revised up…" (International Monetary Fund, 2007, p. 1) .

This failing has been acknowledged by the Independent Evaluation Office of the IMF.

> Even as late as April 2007, the IMF's banner message was one of continued optimism within a prevailing benign global environment. Staff reports and other IMF documents pointed to a positive near-term outlook and fundamentally sound financial market conditions. Only after the eruption of financial turbulence did the IMF take a more cautionary tone in the October 2007 WEO (World Economic Outlook) and GFSR (Global Financial Stability Report) (International Monetary Fund, Independent Evaluation Office, 2011).

Other leading organizations also failed to see the crisis coming. For example, three months before the implosion of the financial sector began with the United States subprime market collapse in August 2007, the Organization for Economic Cooperation and Development (OECD) took the view that:

> the US slowdown was not heralding a period of worldwide economic weakness, unlike, for instance, in 2001. Rather a 'smooth' rebalancing was to be expected, with Europe taking over the baton from the United States in driving OECD growth.... Our central forecast remains indeed quite benign: a soft landing in the United States, a strong and sustained recovery in Europe, a solid trajectory in Japan and buoyant activity in China and India (Organization for Economic Cooperation and Development, 2007, p. 7).

With the benefit of hindsight, there was no sound reason for such exuberant optimism. Together with the Bank for International Settlements led by its then economic adviser of William White, the United Nations was the only international organization which raised concerns before the crisis hit. In its *World Economic Situation and Prospects 2006*, the United Nations issued the following warning:

> The possibility of a disorderly adjustment of the widening macroeconomic imbalances of the major economies is a major risk which could harm the stability and growth of the world economy…A reversal in house prices…will heighten the risk of default and could trigger bank crises... A sharp fall in house prices in one of the major economies could, then, precipitate an abrupt and destabilizing adjustment of the global imbalances (United Nations, 2006, pp. v-viii).

Even after the advent of the crisis, lessons were learnt too slowly. The United Nations underestimated the impact of the underlying risks for the global economy, but nonetheless made more realistic projections for growth in 2009. While the IMF was projecting global growth of 2.2 per cent for 2009 in November 2008, at the same time, the United Nations (2009a) projected a baseline growth rate of 0.9 per cent. As it turned out, the global economy contracted by -2.0 per cent in 2009.

official development assistance. The countries were affected to different degrees depending on their economic structure and vulnerability to shocks.

The impact of the crisis was further influenced by the capacity of Governments to cope with and counteract its consequences, which has depended on the efficiency and strength of their counter-cyclical macroeconomic policy mechanisms, social protection systems, regulatory frameworks, governance structures and political stability. These factors in turn influenced how different social groups have been affected by the crisis. The poorest countries have become the most vulnerable to the vicissitudes of the global economy and are generally heavily dependent on external finance, including aid, and trade. Their foreign-exchange earnings and government revenue tend to rely on only a few commodities, and with little fiscal space, they have weak social protection systems.

A key conclusion of the present *Report* is that countries need to be able to pursue counter-cyclical policies in a consistent manner. Such policy space should be enabled by changing the fundamental orientation and nature of policy prescriptions that international organizations impose on countries as conditions for assistance. International financial institutions—despite having declared changes in their policy prescriptions—continue to attach pro-cyclical conditions to the financial assistance packages they extend to countries in need and have paid insufficient attention to the social implications of such policies.

The relative success of some Asian and Latin American Governments in mitigating the economic and social impacts of the recent crisis strongly underscores the need for Governments to be consistently counter-cyclical and the wisdom of conserving fiscal resources during boom periods to support counter-cyclical measures in times of need. In fact, universal social protection systems and active labour market programmes should become permanent measures, not merely temporary components of national crisis response.

It is essential that Governments take into account the likely social implications of their economic policies. It has been shown, time and again, that economic policies considered in isolation from their social consequences can have dire consequences for nutrition, health and education, which, in turn, adversely affect long-term economic growth. The disconnect between economic policies and their social consequences can create a vicious circle of slow growth and poor social progress.

The continuing social crisis

The full impact of the financial and economic crisis on social progress in areas such as education and health are not immediately discernible and will only become fully evident over time. However, initial estimates show that the effects have been sharp, widespread and deep. Given the fragility of the economic recovery and uneven progress in major economies, social conditions are only expected to recover slowly. The increased levels of poverty, hunger and unemployment due to the global crisis will continue to affect billions of people in many developed and developing countries for years to come.

Meanwhile, austerity measures in response to high government debt in some advanced economies, such as Greece and Spain, are not only threatening public sector employment and social expenditure, but are also making the recovery more uncertain and fragile. Increased pressure for fiscal consolidation and new pressures in response to such debt have severely limited fiscal and policy space in developed economies, restricting their options as the crisis continues. Many developing countries, especially those under IMF programmes, are also coming under pressure to cut public expenditure and undertake austerity measures.

Although the massive stimulus packages adopted by major economies were able to halt the downslide and thus prevent a prolonged recession, in many cases, the recovery has been job poor, with unemployment and underemployment remaining at unacceptably high levels. Evidence from recent recessions suggests that the lag between output and employment recovery has grown. The longer-term adverse employment consequences of the current crisis are already visible and, in most countries, youth unemployment has reached alarming levels. In developed as well as developing countries, unemployment and underemployment rates are very high among young people 15 to 24 years of age: at the end of 2009, there were an estimated 79 million unemployed young people, and the rate of youth unemployment stood at 13.0 per cent globally.

The share of "structural" or long-term unemployment has increased significantly in most developed countries since 2007. For example, the share of workers unemployed for 27 weeks or more in the United States rose at an alarming pace during 2010; about half the workers without jobs have been unemployed for at least half a year. The unemployment situation is equally worrisome in many European countries.

In developing countries, most job losses have occurred in the dynamic export sectors. Of great concern has been the rise in vulnerable employment and the number of working poor, as people who lost their jobs in the formal economy have increasingly moved to the informal economy where jobs are poorly paid and offer little or no protection.

Labour market conditions in developing countries are expected to remain a challenge for at least two reasons. First, most of the 47 million new workers who enter labour markets worldwide each year are searching for jobs in developing countries. According to the United Nations (2010b), an estimated 51 million additional jobs will be needed in Asia alone to absorb the growing labour force during the period 2010-2011. Second, as in developed countries, employment creation in the formal and industrial sectors in developing countries is also expected to lag behind output recovery. For example, in the aftermath of the 1997-1998 Asian financial crisis, job

Box 2

The social pathology of crises

The full social impacts of economic crises, especially on public health and education, become known only after a long gestation period. However, one can draw lessons from past financial and economic crises, such as the Great Depression of the 1930s and the 1997/98 Asian financial crisis. For example, a 30 per cent drop in income between 1929 and 1932 led to a 40 per cent rise in suicide rates and a 10 per cent rise in deaths from all causes in the United States (Stuckler and others, 2009a, b). Similarly, between 1997 and 1998, suicide rates among males rose by 39 per cent in Japan, 44 per cent in Hong Kong, Special Administrative Region of China, and 45 per cent in the Republic of Korea. Suicide rates among males also rose in Thailand. In Hong Kong, SAR, Japan, and the Republic of Korea, the economic crisis was associated with 10,400 more suicides in 1998 than in 1997. After the collapse of the former Union of Soviet Socialist Republics, life expectancy in that country fell steeply, and it fell again with the ruble crisis of 1998 (Chang and others, 2009).

Economic downturns have also produced adverse impacts on public health. Brenner (1971) found that economic downturns were associated with increased mortality from heart disease in New York State and in the United States of America over the period1900-1967. Short-term increases in alcohol consumption at least partly reflect the social-psychological stresses related to economic recession (Brenner, 1975). If an economic recession is prolonged, increased alcoholism is likely to lead to increased mortality due to liver cirrhosis, as Brenner (1979) found for England and Wales during the period 1936-1976.

Adverse health effects are mostly found among the "lower socio-economic classes" without economic security. The lack of economic security is often stressful: social and family structures break down and habits harmful to health are adopted. These effects may be manifested in a psychopathological event, such as suicide, or, after a time lag of a few years, in chronic diseases. Brenner's findings are consistent with those of Dooley, Catalano and Wilson (1994) who found that losing a job leads, in the short term of a year or less, to increased symptoms of depression. They also cite evidence of increased alcohol abuse among those losing their job.

recovery took at least three years to complete. In view of the global nature of the current crisis, job recovery may take even longer.

The global economic downturn has had wide-ranging negative social outcomes for individuals, families, communities and societies. Poverty and unemployment have been linked to crime, gender-based violence, substance abuse and mental illness, including depression and suicide. During times of financial and economic crisis households often adopt coping strategies, such as making changes in household expenditure patterns; however, these can negatively influence education, health and nutrition outcomes, which may lead to lifelong deficits for the children affected and thus perpetuate intergenerational poverty.

The impact of volatile and high food prices, diminishing incomes and rising unemployment are slowing progress towards reducing hunger and improving nutrition. The sharp rise in global food and energy prices in 2007 and 2008 further undermined the welfare of the world's poor, forcing more families to

rely on underfunded public food assistance programmes, skip meals, consume less or substitute nutritious foods with cheaper, less healthful alternatives. Food-importing countries saw their import bills increase as a result of higher prices and higher transport energy costs passed on to consumers (Mittal, 2009).

Food prices started rising once again in 2009, primarily because of persistent problems with global food production and supply (Johnston and Bargawi, 2010), exacerbated by the demand for bio-fuel production and greater speculation in commodity futures and options markets. The continuing food crisis has serious implications for political and social stability in poor food-importing countries. Outbreaks of food riots have been related to the continued impacts of high food prices on the poor and other vulnerable groups. The Food and Agriculture Organization of the United Nations (FAO) recently warned of a "worrying rise" in food prices which would affect millions of people following unexpected shortfalls in major cereals caused by bad weather, floods and fires in 2010.

Addressing the crisis: the way forward

Role of Government

The initial multilateral response in October 2008 to the financial crisis promised comprehensive approaches that emphasized cooperation and coordination (United Nations, 2009a). As a result, many government stimulus measures furnished the essential impetus to drive global recovery. However, as these stimulus measures have given way to fiscal austerity, there is the danger that government-led recovery in some countries may stall or even be reversed. Given the continuing fragility of the economic recovery in many countries, it is imperative that policymakers resist pressures to cut spending too much and too soon if they are to avert the possibility of a relapse.

Counter-cyclical macroeconomic policy measures have clearly worked to mitigate the impacts of the crisis. Both the recession and its social impacts have been less severe than initially feared, thanks to the prompt policy responses by many countries, including emerging economies in the developing world. The International Labour Organization (ILO) has estimated that counter-cyclical measures implemented by the Group of Twenty (G-20) countries saved or created 21 million jobs in their economies (International Labour Organization and Organization for Economic Cooperation and Development, 2010).

This highlights the importance of timely State intervention in response to a crisis. Yet, the sustainability of these policy responses has been threatened by exaggerated claims of the deleterious effects of the fiscal burdens and other related consequences that the crisis has placed on Governments. Undoubtedly, the fiscal burdens on Governments have grown as the economic slowdown has reduced fiscal revenues available in line with the contraction of tax bases. As chapter V shows, the primary cause of budgetary deficits is the decline in revenues associated with drastic output and income contractions, not stimulus measures and social spending. These declining tax revenues, combined with the increased need for social programmes, have exacerbated the impact of the crisis on social development.

The growing pressure for austerity measures, ostensibly for reasons of fiscal consolidation, is putting at risk social protection, public health and education programmes, as well as the economic recovery measures. Reductions in social expenditure are already taking place in many industrialized countries and in many developing countries as well (see chap. V). Governments must respond with caution to pressures for fiscal consolidation and austerity measures, lest they jeopardize the sustainability of the recovery. Continued support for stimulus and other recovery measures is needed to strengthen the momentum of output recovery and to protect the economic and social investments that underpin future growth.

More importantly, the responses to the crisis have not addressed the fundamental causes of the crisis. For example, financial reform in major economies has not matched initial expectations and exposes the recovery to new abuses, excesses and vulnerabilities. There are signs that this is already happening. Progress in addressing other structural causes of the crisis has also been limited. For example, income inequalities continue to grow, global rebalancing is limited and global demand remains depressed. The failure to address the root causes of the crisis will impede a sustainable recovery.

Focus on employment growth

Employment recovery clearly lags behind other indicators of economic recovery and Governments must continue to focus stimulus measures on job growth. The lag in employment recovery underscores the challenge posed by the global financial and economic crisis for poverty eradication and achievement of the Millennium Development Goals by 2015. Full and productive employment and decent work for all are critically important for poverty eradication and achievement of the Goals. This was strongly emphasized shortly after the onset of the crisis by the Global Jobs Pact to promote a job-rich recovery.[2]

The September 2010 High-level Plenary Meeting of the sixty-fifth session of the General Assembly on the Millennium Development Goals also called

2 In April 2009, the United Nations Chief Executive Board launched the “Global Jobs Pact” initiative aimed at focusing the attention of decision makers on employment measures and decent work as the foundation for long-term recovery. The Global Jobs Pact includes a range of crisis-response measures that countries can adapt to their specific needs and situations. It is not a one-size-fits-all solution, but a portfolio of options based on successful examples, and is designed also to inform and support action at the multilateral level. The key component of the Global Jobs Pact is employment promotion and social protection.

attention to the importance of productive employment and decent work as crucial means to achieve the Goals. In particular, the expansion of decent employment opportunities enables the benefits of economic growth to reach the broader population (see United Nations, 2007). Therefore, promoting a job-rich recovery will lay a solid foundation for realizing the goal of sustained, inclusive and equitable economic growth envisioned in the outcome document.[3]

However, the challenge of employment generation should not be underestimated because the rate of economic growth needed to restore employment to pre-crisis levels has to be sufficiently high to compensate for both the increases in the size of the working population and the level of productivity. In addition, this growth has to be employment-intensive and, for sustainability, must be driven by productivity growth. This means there has to be widespread structural change favouring the dynamic sectors of the economy.

Calls to enhance labour market flexibility, a condition which often encourages lower wages and degraded employment conditions, are touted as necessary to address rising unemployment levels.[4] However, this prescription of deregulating the labour market overlooks three key considerations. First, countries with “labour-friendly” regulations are associated with lower wage inequality. Hence, regulations to protect labour rights lower inequality without imposing any significant loss in terms of output and employment (Freeman, 2007).

Second, the current discourse on labour market flexibility refers to a regime of employment at will, where Governments impose no restrictions on hiring, firing or employment conditions. Hence, from this perspective, both employers and workers should be free to choose mutually convenient terms of employment. But, in reality, flexibility is meant only for employers. In good times, this may go unnoticed, but in bad times, when firms are allowed to cut wages or fire employees en masse to reduce costs, this flexibility for employers translates into insecurity for workers, especially in the absence of adequate universal social protection.

3 See General Assembly resolution 65/1.

4 For example, a recent Organization for Economic Cooperation and Development (OECD) working paper by Brixiova (2009) argued: “More flexible labour markets will be a key adjustment mechanism during the recession as well as in the medium term”. Chowdhury and Islam (2009) referred to *The Economist* (2009) noting that it had pinned its hopes on a renewed commitment to global labour market flexibility to cope with worldwide job losses and accelerate employment-led recovery. They quoted World Bank (2009) as suggesting that “overly stringent employment protection laws constrain firm hiring and lead to suboptimal level of employment, a feature particularly important during economic downturns”. In fact, many believe that the financial crisis-induced recession provides an opportunity to dismantle labour market regulations. For example, a former Finance Minister and Foreign Minister of Chile argued that the economic crisis provided opportunities to remove labour market protection, stating: “Labor reform is always politically contentious, but the current crisis, by illustrating the dangers of ignoring necessary long-term reforms, has made it easier to reach consensus on the need for action” (Foxley, 2009).

Third, the focus on labour market flexibility to cope with the global economic crisis runs the risk of impairing long-term growth potential if regulatory changes create an incentive structure in which workers respond by changing their collective behaviour to induce a "low pay-low productivity trap".

There is an implicit normative message that "any job is better than no job". Such a view discounts the value of improving job security. In the absence of formal risk-mitigation schemes, workers could be induced to readily accept low-productivity jobs at low wages. This could propel an economy into a low wage-low productivity trap, with "bad jobs" driving out "good jobs".

A high turnover of workers induced by greater labour market flexibility might also reduce incentives for insecure workers to acquire training that would enhance labour productivity. In the absence of job security and legal protection, workers pay a premium (in the form of low wages and willingness to accept any job) to employers to reduce the risk of being unemployed. In such circumstances, the imposition of higher labour standards and various risk-mitigation schemes could be both efficient (leading an economy towards a "high productivity, high wage equilibrium") and equitable (enabling vulnerable workers to better deal with labour market risks).

Need for social protection

The devastating impact of the crisis on so many people underscores the dynamic and multidimensional nature of poverty and the critical importance of social protection for reducing vulnerability. Countries that have social protection systems can better mitigate the negative impacts of shocks and prevent people from falling deeper into poverty. Social protection measures can also help regenerate economic activities and livelihoods.[5]

In the long term, social protection can help individuals and families build human and social resources, among other assets, and improve their livelihood prospects,[6] thereby reducing poverty and unleashing the productive potential of the workforce. Therefore, social protection should not be viewed as a temporary measure to cushion the impact of a crisis, but rather as an ongoing investment to promote sustained, inclusive and equitable economic growth. If social expenditures are allowed to decline in the wake of the crisis, such a situation is likely to exacerbate and prolong the adverse impacts of the crisis, for example, on levels of malnutrition, school dropout rates and long-term unemployment.

5 Social protection—which typically consists of social insurance, social assistance, including universal tax-financed transfers, and protective labour market regulations—also functions as an automatic stabilizer through business cycles and supports economic growth.

6 For example, Bolsa Familia, a conditional cash transfer programme in Brazil, has improved the education, nutrition and health of beneficiary families. See International Labour Office (2009).

Universal access to basic social protection and social services is necessary to break the cycle of poverty and reduce inequality and social exclusion. A basic social protection floor is affordable; its benefits need to be weighed against the potentially high human, social and economic costs of not investing in social protection. Without schemes that ensure access to health care, adequate levels of nutrition and social stability, a country cannot unlock its full human, economic and productive potential. A human rights-based development strategy must advance the full realization of social and economic rights, and should also, for example, advance and protect gains in social development during times of crisis. The right to social security contained in the Universal Declaration of Human Rights requires universal social protection to ensure the basic well-being of all individuals, including people living in poverty and those at risk of becoming poor.

Poverty and food security

The effects of the current financial and economic crisis were compounded by food price hikes in 2007 and 2008. With global food production growing more slowly and food stuffs increasingly used to produce animal feed and biofuels, it is highly unlikely that, there will be an early return to the earlier period of declining food prices. Recent supply problems attributed to weather, fires and floods have also exacerbated uncertainties. The food price hikes were partly due to speculation in the commodities markets as financial investors fled traditional financial markets. Clearly, higher food prices have adversely affected efforts to reduce poverty and hunger.

Fundamental problems in the global food production and trading system must be addressed to ensure sustained food security. Developing countries need to shift from predominantly export-oriented agricultural policies in order to strengthen domestic food production to better meet local needs for affordable food and to cushion the impact of international price shocks. Such a shift presupposes a stronger supportive role for the State, improved international cooperation and greater investment in food and agricultural development, with priority for small farming and sustainable environmental resource management.

Rethinking social policy

The crisis offers an opportunity to rethink the role of social policy and social investment in transforming policy responses to the crisis into opportunities to strengthen social development and to achieve more sustained, inclusive and equitable development. It presents an opportunity to reshape the global economic, social and development agenda. There is renewed realization that social policy considerations, especially productive employment, should be given greater importance within macroeconomic policy, rather than being viewed as residual assistance to poor people and disadvantaged groups who have been adversely affected by macroeconomic policies aimed only at lowering inflation or eliminating budget deficits.

The economic crisis has served as a reminder that it is essential for people to be healthy, educated, adequately housed and well fed to be more productive and better able to contribute to society. In other words, social policy in general, as well as measures to end poverty in all its dimensions, should be an integral part of macroeconomic policy to promote development. Approaches to poverty reduction should, therefore, be developmental and holistic, integrating economic and social policies to achieve people-centred development outcomes.

In the context of the crisis, a job-rich recovery requires incorporation of social objectives into economic recovery strategies and policies. In fact, macroeconomic policy measures to promote sustained recovery should support policies for employment growth and poverty eradication. Social investments should be accorded priority in recovery strategies and development policies.

Social investment invariably contributes to long-term growth and development. In developing countries, increasing expenditures to expand social protection and improve access to education and health services will help ensure more inclusive development with stronger domestic demand and a more solid foundation for future growth.

The crisis also provides an opportunity to re-examine approaches to social policy. The fact that populations in rich and poor countries alike have been negatively affected by the global food, financial and economic crises underscores the case for a universal approach to social policy that does not focus only on people already in poverty. Universal social provisioning should be the goal of social policymaking and will also ensure broader and more sustained support than narrowly targeted policy measures which risk significant albeit inadvertent exclusion of many of the deserving.

The Social Protection Floor Initiative promotes universal access to essential social transfers and services. More than 75 per cent of the global population do not enjoy social guarantees that would enable them to cope with livelihood risks. Ensuring a social protection floor for people struggling to survive should be a necessary first step to address the multifaceted nature of poverty. This may require special, targeted measures—within the commitment to universal provisioning—to ensure that the most vulnerable are reached.

For many poor developing countries, such programmes would require at least medium-term support from the international community. Ensuring a social protection floor for the entire global population represents a considerable challenge, but various United Nations agencies have shown that a basic floor of social transfers is affordable in all countries at virtually any stage of economic development.

History has shown that during moments of crisis leading to social and political unrest, strong political leadership can be the key factor in realizing important social change. The current crisis offers such a window of opportunity for achieving social progress; it is important to seize the opportunity by taking initiatives that will make universal social protection a reality.

Chapter I

The global economic crisis: causes and transmission

Impact, response and recovery

The recent financial and economic crisis—the worst since the Great Depression of the 1930s—originated in the United States and quickly spread through multiple channels to other industrialized countries, low- and middle-income countries, as well as economies in transition. The result has been the still-unfolding global financial, economic and social crises now often referred to as the "Great Recession".

The global economy contracted by 2 per cent in 2009 in sharp contrast to the several preceding years of high growth in excess of 3 per cent annually (United Nations, 2010c; 2011). While many rich countries experienced economic contraction, the rate of economic growth in developing countries slowed significantly to 2.4 per cent for 2009. In 2009, 52 countries experienced declines in per capita income. In the same year, output in economies in transition as a group contracted sharply by 6.7 per cent as Russian output declined by almost 8 per cent. Also in 2009, economies in Latin America and the Caribbean contracted by 2 per cent, as Mexican output fell by 6.5 per cent. Western Asia was the other developing part of the world experiencing negative growth (United Nations, 2011).

Global trade volumes fell from the end of 2008 through the first half of 2009 as a result of declining imports by developed countries, especially in the United States which accounted for 15 per cent of the global total (United Nations, 2009a; 2010b). At the height of the crisis, between July 2008 and April 2009, the value of imports of the European Union, Japan and the United States plummeted by almost 40 per cent and triggered a worldwide collapse in international trade.[1] Despite the gradual recovery of the past two years, the value of imports of the three largest developed economies was still about 25 per cent below pre-crisis peaks by August 2010. Global trade is expected to grow by about 6.5 per cent in 2011 and 2012, significantly less than the 10.5 per cent rebound in 2010 (United Nations, 2011).

1 The volume of imports of the three major developed economies fell by about 18 per cent during that period, a situation which was compounded by a decline of about 24 per cent in import prices.

The extent as well as manner in which a country is integrated into the global economy has determined the severity of the crisis in different countries. The effects of the crisis spread to developing countries, primarily through declines in trade and commodity prices and reduced access to credit, as lower demand in developed countries hurt the export sectors and slowed growth in developing countries. The plight of many developing countries heavily dependent on the export of primary commodities was especially worsened by falling commodity prices. At the same time, international bank loans and foreign direct investment (FDI) declined. While some of these flows have since recovered, the cost of finance is still high and access to bank loans remains especially tight with stringent implementation of the regulations introduced by the Basel Committee on Banking Supervision. The effects of the crisis also spread through secondary transmission channels, such as lowered remittance flows to some countries and reduced earnings from tourism, of particular importance for many small island States.

Sub-Saharan Africa has not been immune to the effects of the crisis despite its marginal role in the global economy. That region has experienced significant slowing of economic growth and poverty reduction but the impacts were less severe there than elsewhere. Although parts of the Asian region have led the recovery, the crisis has reduced the region's remittance inflows and export earnings. Some countries in Latin America with strong ties to crisis-affected Spain and the United States have suffered quite badly, although overall the region has proven quite resilient (United Nations, 2010b; World Bank, 2010a). Central Asian countries were also relatively less affected, except for Kazakhstan which had fuelled its rapid growth with heavy private sector external borrowings from foreign capital markets. The crisis spread through the operations of the banking subsidiaries in Kazakhstan to other countries in that subregion. The other channel of contagion was the drop in remittances of migrant workers, mostly from Tajikistan and Kyrgyzstan, working in Kazakhstan and the Russian Federation. The worst affected area was Eastern Europe, which suffered heavily because of its exposure to toxic assets in the United States. Almost all countries in that part of Europe experienced declines in real gross domestic product (GDP) in 2009. The most severely affected countries were Estonia, Latvia and Lithuania, where real GDP fell by 15 to 18 per cent in 2009 and did not recover in 2010. The unemployment rate in Latvia rose to 22.5 per cent in 2009 and to 15 per cent in the other two Baltic countries. In 2010, the unemployment rates were 20 per cent in Latvia, 19 per cent in Estonia and 17.3 per cent in Lithuania (Eurostat, 2011).

International response averts deeper recession

The leaders of major economies came forward and took unprecedented coordinated actions, adopting stimulus packages and furnishing resources to boost the lending capacity of the IMF and multilateral development banks. These actions succeeded in averting a deeper recession. The global recovery has proven to be stronger than had been initially forecast, though it is still uneven and the potential for volatility remains high. The policy response has weakened since 2010, and many Governments, particularly those in developed countries, have shifted to fiscal austerity. Partly as a result of these policy shifts, global economic growth started to decelerate in mid-2010. Government policies are expected to be much less expansionary in the near

Table I.1

Growth of global output, 2006-2012

Annual percentage change	2006	2007	2008	2009	2010 [a]	2011 [b]	2012 [b]
Global output [c]	**4.0**	**3.9**	**1.6**	**-2.0**	**3.6**	**3.1**	**3.5**
of which:							
Developed economies	2.8	2.5	0.1	-3.5	2.3	1.9	2.3
Euro area	3.0	2.8	0.5	-4.1	1.6	1.3	1.7
Japan	2.0	2.4	-1.2	-5.2	2.7	1.1	1.4
United Kingdom	2.8	2.7	-0.1	-4.9	1.8	2.1	2.6
United States	2.7	1.9	0.0	-2.6	2.6	2.2	2.8
Economies in transition	8.3	8.6	5.2	-6.7	3.8	4.0	4.2
Russian Federation	8.2	8.5	5.2	-7.9	3.9	3.7	3.9
Developing economies	7.3	7.6	5.4	2.4	7.1	6.0	6.1
Africa	5.9	6.1	5.0	2.3	4.7	5.0	5.1
Nigeria	6.2	7.0	6.0	7.0	7.1	6.5	5.8
South Africa	5.6	5.5	3.7	-1.8	2.6	3.2	3.2
East and South Asia	8.6	9.3	6.2	5.1	8.4	7.1	7.3
China	11.6	13.0	9.6	9.1	10.1	8.9	9.0
India	9.6	9.4	7.5	6.7	8.4	8.2	8.4
West Asia	6.1	5.1	4.4	-1.0	5.5	4.7	4.4
Israel	5.7	5.4	4.2	0.8	4.0	3.5	3.0
Turkey	6.9	4.7	0.7	-4.7	7.4	4.6	5.0
Latin America and the Caribbean	5.6	5.6	4.0	-2.1	5.6	4.1	4.3
Brazil	4.0	6.1	5.1	-0.2	7.6	4.5	5.2
Mexico	4.9	3.3	1.5	-6.5	5.0	3.4	3.5
of which:							
Least developed countries	7.6	8.1	6.7	4.0	5.2	5.5	5.7

Source: (United Nations, 2011), p. 5.

a Partly estimated.

b Forecasts, based in part on Project LINK and baseline projections of the United Nations World Economic Forecasting Model.

c Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

term, especially as widening fiscal deficits and rising public debt have undermined support for further fiscal stimulus measures. Therefore, slower growth is expected to continue into 2011 and 2012.

Recovery: tepid, uneven and uncertain

The global economy grew by about 3.6 per cent in 2010. Asia has led the recovery among developing regions, while Europe and the Commonwealth of Independent States are still lagging behind. The United Nations estimates that the global economy will grow by 3.1 per cent in 2011 and 3.5 per cent in 2012. The recovery may, however, suffer setbacks and slow to below an annual rate of 2 per cent, while some developed economies may slip back into recession should several downside risks materialize (United Nations, 2011).

Many fundamental causes of the crisis have not been addressed, such as insufficient financial sector regulation, unrealistically high executive compensation (salaries and bonuses), stagnating real wages and consequently rising inequality and debt-financed consumption. Some countries have continued, or even intensified, expansionary monetary policies (low interest rates and “quantitative easing”) to support economic activities while fiscal stimulus measures are being phased out and to help financial sectors return to normalcy. However, these actions have created new risks such as greater exchange-rate volatility among major currencies and a surge of volatile capital flows to emerging economies. These developments have already become a source of economic tension and weakened the commitment to coordinate policies at the international level to deal with the global imbalances and other structural problems. This could harm recovery in the near term and make it difficult to respond to more challenging emerging issues.

Background

In the years preceding the crisis, most economies experienced high rates of growth, low inflation and monetary stability. Many countries, particularly in Africa, grew at historically high rates not seen for decades, largely as a result of the boom in commodity prices. Developing countries became increasingly integrated into the global economy as liberalization, deregulation, trade and financial globalization spread, with the encouragement of the international financial institutions.

This relatively long period of economic growth with low inflation gave rise to a number of dangerous illusions. First was the notion of a “great moderation” in developed countries, meaning that the monetary authorities had achieved growth with low inflation by taming the business cycle with inflation-targeting policies. This bred a sense of collective complacency about the future and heightened optimism about the efficiency of financial markets and the creativity of recent financial innovations.[2]

The second pernicious notion was the so-called decoupling of developed and developing economies. As economies have become more intertwined through trade and finance, the proponents of this belief argued that globalization or international economic integration and decoupling can coexist. This is possible because the opening up of economies not only boosts the trade of poor countries, but also spurs rapid productivity growth, which helps to raise their domestic incomes and spending. Thus, developing countries can continue to grow even with a slowdown in developed economies. The so-called decoupling argument ignored the fact that much of the pre-crisis growth in developing countries, especially those in Africa, was due to booming commodity exports, with hardly any productivity growth or rapid structural change. The idea seduced policymakers in developing countries into believing that there was no need for industrial, investment or technology policies to diversify their economies or to dynamically induce productivity growth. Their collective complacency favoured liberalization of trade and finance, privatization and deregulation.

There was also the presumption that growth is good for the poor.[3] This allowed policymakers to ignore rising inequality, both within and between countries, which many observers believed was due to globalization and deregulation.[4] The collective complacency about inequality and globalization can be gleaned from a remark by the then President of the United States, William Clinton, at the 2000 World Economic Forum at Davos: "We have to reaffirm unambiguously that open markets are the best engine we know of to lift living standards and build shared prosperity".

The epicentre of the financial collapse was the United States, the world's largest economy. Despite relatively higher economic growth rates before the crisis, the wages and purchasing power of most Americans were stagnating. The benefits of the country's growth largely accrued to the wealthiest Americans, as wealth and income inequality worsened. The globalization of labour markets—including through outsourcing jobs from developed countries to lower-wage economies, the weakening of unions and collective bargaining power, increasing returns to capital relative to labour and a falling minimum wage[5] —in effect contributed to wage stagnation in real terms.

Despite static wages for more than two decades among middle-class Americans and growing inequality, consumer spending remained at levels which kept the United States economy growing. This was possibly due to the country's low-

2 For details of this complacency see box 1 in the overview quoting the Independent Evaluation Office of the International Monetary Fund (2011, p. v).

3 For details of this hypothesis see Dollar and Kraay (2001).

4 United Nations (2005) drew attention to the predicament of rising inequality.

5 Since the minimum wage has not kept pace with inflation, its real value has fallen.

Box I.1

The Community Reinvestment Act and the United States subprime crisis

The 1977 Community Reinvestment Act was intended to stop discriminatory lending practices—known as redlining—against individuals in low-income and ethnic minority neighbourhoods by requiring lending institutions to apply the same conditions to all borrowers. Some critics attribute the rise in subprime loans and the subprime mortgage crisis to implementation of that Act. They argue that it required banks to lower their credit standards and offer higher-risk mortgage products in order to make loans to lower-income applicants.

Subprime loans are high-risk loans intended for people who do not qualify for other loans owing to their low income or poor or limited credit histories. Such loans typically have higher interest rates than do prime loans along with more or higher fees and penalties. The subprime market experienced many abusive lending practices, including the steering of borrowers who would be eligible for prime loans towards taking subprime loans and pushing loans with low "teaser" rates that would rise sharply over time.

Only 9 per cent of subprime loans made to low-income borrowers or to those in low-income neighbourhoods were compliant with the Act's regulations (Park, 2008). This argument against financial inclusion overlooks several important facts. Subprime loans generated higher revenue for mortgage companies, so the incentive structure encouraged lenders to push these loans towards potential borrowers. However, 60 to 70 per cent of so-called subprime loans went to borrowers at middle- or higher-income levels and with good credit who should have been eligible for prime loans (Aalbers, 2009). Additionally, the Act could not exercise regulatory control over non-bank lenders. Independent mortgage companies had been the source of the majority of subprime loans in the United States.

Easy access to home loans contributed to a "housing bubble" in the United States, and this situation was at the heart of the crisis. With home ownership long part of the "American Dream", the idea that all Americans, including those with low incomes and poor credit histories, should be able to own their own homes became increasingly prevalent. Inadequate financial regulation and lax monetary policy encouraged lending to applicants not qualified to obtain such loans.

Low interest rates, lack of information, poor judgment and predatory lending practices – encouraged by commission-based mortgage sales – led many home buyers to take risky mortgages. The regularity with which home values increased yearly led to overly optimistic assumptions, as home owners borrowed and spent against inflated home values. By 2006, 48 per cent of all mortgages were subprime (Verick and Islam, 2010). In the same year, interest rates began to rise and borrowers with adjustable-rate mortgages or low introductory "teaser" rates were soon faced with the stark reality that they could no longer afford their monthly payments; the delinquency rate on home mortgages subsequently rose.

As house prices fell, owners found that they owed more than their homes were worth, further fuelling the delinquency rate. Of all subprime loans issued in 2006, at least 40 per cent were delinquent by the end of 2008 (United Nations, 2009a). As lenders spread the risk around, exposure broadened more than ever.[1]

1 "Mortgages were sold on by the originators to third-parties, which were then repackaged as mortgage-backed securities (MBS) and sold to investors. This enabled lenders to take the loans off their books. In particular, special investment vehicles (SIVs) were pressed into service and kept off the balance sheet, which allowed financial institutions to increase leverage and returns on their investments. Thus, mortgages that were in the past the domain of the traditional banking system could now be traded in open markets both within the US and outside its borders, beyond the scope of regulatory measures (because they were conducted as an over-the-counter transaction thus avoiding the regulations pertaining to the stock market)" (Verick and Islam, 2010).

interest monetary policy which kept credit relatively cheap. The easy access to credit increasingly fuelled consumption, and household debt increased from 48 per cent of GDP in the early 1980s to nearly 100 per cent just before the crisis.

Rising income inequality in the United States and elsewhere also contributed to the financial crisis. In the United States, in the mid-1970s, the richest 1 per cent of the population captured about 8 per cent of national income; by the 2000s, this group received double that proportion, or 16 per cent. The income share of the bottom 90 per cent of the population declined from 65.4 per cent in 1980 to 51.8 per cent in 2008 (Johnston, 2010). Such high income concentration in the hands of so few had not existed since 1929, just before the start of the Great Depression. This massive wealth accumulation sought profitable investment opportunities and increased the pressure on the financial sector to make increasingly risky investments in more unregulated environments.[6] Insufficient regulation, despite the emergence of many new financial instruments, enabled financial institutions to become overleveraged as overconfident investors moved into riskier assets, presuming the continuation of high economic growth rates (Milanovic, 2009; Rajan, 2010).

United States crisis becomes global

Recent globalization has been characterized by widespread trade and capital account liberalization, either voluntarily or as a condition for receiving loans or aid. The dominant view, at least prior to the current crisis, had been that freer markets would enhance economic efficiency. That view held that trade liberalization and economic openness should enable countries to maximize resource use and comparative advantage, attract FDI and increase capital formation. The benefits of the ensuing growth would then trickle down to the majority of the population. This approach, however, did not achieve the promised results in many countries, and in fact worsened the effects of the crisis (van der Hoeven, 2010).

The global crisis was, in part, precipitated by the lack of international regulatory coordination. Globalization of financial markets has meant that much credit and capital are no longer under the jurisdiction of national regulatory bodies. Existing national regulation also proved insufficient to protect investors from excessive risk. Governments' failure to more effectively regulate banks and other financial institutions allowed those institutions to take advantage of loopholes in their search for greater profits, ultimately causing them to become overleveraged (United Nations, 2010b)

Globalization in the years prior to the crisis accelerated the broad economic integration that facilitated the spread throughout the world of the repercussions of

6 For details refer to Torres (2010) and van der Hoeven (2010).

unsustainable overleveraging in the United States. The crisis spread through financial market interlinkages across Europe and quickly extended to the real economy as needed loans and investment finance became increasingly unavailable. While the impact of the crisis on economic growth and employment has been most severe in some high-income countries, there have also been negative impacts on developing countries. Declining global trade and commodity prices hurt export sectors, as the credit squeeze spread to developing countries and transition economies.

Trade

Triggered by a collapse of import demand in major developed countries and much less trade finance, trade flows fell between 30 and 50 per cent in most economies in late 2008 and early 2009, with East Asian economies experiencing the sharpest decline. The financial crisis also abruptly reversed the upward trend of oil and non-oil primary commodity prices experienced since 2002. Oil prices plummeted by as much as 70 per cent from their peak levels in 2008 before rebounding. In the same period, metal prices declined even more sharply to about a third of their peak levels. Prices of agricultural products, including basic food grains, also declined significantly (United Nations, 2010b).

As a result, many developing countries suffered strong swings in their terms of trade. In particular, net exporters of oil and minerals felt very strong adverse export price shocks on top of declines in global demand due to the recession. Although net importers of food and energy saw their import bills fall during the crisis, the related terms of trade gain was more than offset by the steep drop in demand for their exports at the nadir of the recession (United Nations, 2010b).

As noted in the United Nations *World Economic Situation and Prospects 2010*, trade protectionism increased as the crisis evolved. A good number of developed and developing countries raised tariffs and introduced new non-tariff measures. The fiscal stimulus packages and bail-out measures also contain protectionist elements, such as direct subsidies and support for domestic industries, or restrictions on the use of these resources to buy foreign products. Some countries also reintroduced previously eliminated export subsidies for some agricultural products.[7]

Yet, world trade continued to recover in 2010 mainly due to strong import demand from the emerging economies, and grew by about 10.5 per cent. However, there is considerable doubt whether emerging economies can continue to act as the engines of world trade growth particularly as the dynamics of the initial phase of the recovery seem to be fading and as growth in developed countries remains sluggish. According to the United Nations World Economic Situation and Prospects 2011 world trade is expected to moderate to about 6.5 per cent in both 2011 and 2012.

7 For details see Gamberoni and Newfarmer (2009).

Box I.2

Greek tourism sector adversely affected by crisis

Tourism comprises almost a fifth of Greek national income. In 2009, the country's fiscal deficit was approximately 13.6 per cent of gross domestic product (GDP), with a total public debt of 115 per cent of GDP (United Nations, 2010d). The country's debt rating plummeted as it lost investor confidence, putting Greece on the verge of defaulting on its loan obligations. A default was forestalled with assistance from the International Monetary Fund and the European Union. However, by mid-2011 it became apparent that further assistance would be necessary to prevent a default.

In December 2009, the Government began to implement a series of austerity measures, slashing public spending, raising taxes and raising the retirement age. The public has reacted strongly, with massive—and, at times, violent—protests beginning in February 2010. Major labour strikes further disrupted economic activity, especially in the country's crucial tourism sector (BBC, 2010). In the first half of 2011 protests against further budget cuts and tax increases escalated in Athens.

After two years of sharp decline, there is cautious optimism that Greek tourism revenues could increase by up to 10 percent in 2011 (Melander, 2011). Tourism in Greece, Spain and Portugal has risen in the first half of 2011 as tourists who might have opted for destinations such as Egypt and Tunisia are opting for alternative travel locations (Bawden, 2011).

Tourism

The effects of the economic crisis have also spread from high- to middle- and low-income countries through declines in international tourism. According to the United Nations World Tourism Organization (UNWTO), tourism registered a strong growth in developing countries, especially in least developed countries (LDCs) since 2001 until the crisis hit. For example, international tourist arrivals grew by 42.5 per cent in LDCs and 30.8 per cent in developing countries as a whole during 2001-2005. Commensurate with this, international tourism receipts grew by over 50 per cent in LDCs and over 33 per cent in developing countries during the same period. Tourism is highly reactive to and dependent on economic conditions in tourist-sending countries, so it is not surprising that international tourism receipts dropped by $89 billion, from $939 billion in 2008 to $850 billion in 2009. All regions suffered lower receipts, with an average decline of 5.7 per cent globally compared with 2008 (World Tourism Organization, 2010a). The biggest losers were the Americas, down 9.6 per cent, and Europe, down 6.6 per cent. Asia and the Pacific saw uneven trends, with South and South-East Asia declining by 3.5 and 7.2 per cent, respectively, and Oceania and North-East Asia increasing by 5.2 and 0.7 per cent, respectively (World Tourism Organization, 2010b).

A slow recovery in global tourism started in the fourth quarter of 2009 and gained speed through 2010, driven by the emerging economies. International tourist arrivals increased by 6.7 per cent in 2010 compared with 2009, with

the Middle East and Asian regions leading increases by 14 and 13 per cent, respectively, followed by the Americas at 8 per cent and Africa at 6 per cent. Europe trailed behind with 3 per cent growth (World Tourism Organization, 2011). International tourist arrivals are expected to grow by about 4 per cent in 2011 (World Tourism Organization, 2010a).

International finance[8]

Net private capital inflows to emerging economies declined precipitously in late 2008 and early 2009. After peaking at about $1.2 trillion in 2007, inflows halved in 2008 and plunged further to an estimated $350 billion in 2009. The sharpest drop was in international bank lending to emerging economies, with a total net inflow of $400 billion in 2007, which became a net outflow of more than $80 billion in 2009. The economies in transition, especially the Russian Federation, Ukraine and a few other countries in Central and Eastern Europe, experienced the most dramatic reversal in access to bank lending. Non-bank lending flows also declined significantly during the crisis. Large outflows of net portfolio equity were registered in the second half of 2008. These flows have recovered markedly since early 2009, but returning portfolio flows may also reflect a renewed appetite for riskier assets.

While flows of FDI tend to be less volatile than other components of private capital flows, these declined by more than 30 per cent in 2009. External financing costs for emerging market economies surged in late 2008. As a result, private sector access to credit in emerging markets was curtailed, with this trend continuing well into 2009. Outflows of capital from emerging economies, particularly to other developing countries, which had gathered some momentum prior to the global financial crisis, also moderated during the period 2008-2009.

The declines in private capital flows were partially offset by increased official inflows, particularly from the IMF and other multilateral financial institutions, as their financial resources were boosted significantly at the G20 London Summit and they started to disburse more lending. Emerging Europe received the lion's share of these net official flows. Bilateral official, non-concessional flows also increased as central banks arranged foreign-exchange swaps to deal with reduced international liquidity. However, net official flows to developing countries remained negative in 2009 and 2010, continuing the trend of the past decade. The return of net official flows (including ODA from poor to rich countries was about $120 billion per year between 2006 and 2008 (United Nations, 2010b). There are also concerns about the conditionalities of the IMF's new crisis lending, which will be discussed further in chapter VI.

8 This section draws on United Nations (2010b).

Development aid

Development aid can be an important source of support for economic and social development and accounts for as much as 20 per cent of government spending in some developing countries. At the 2002 Monterrey International Conference on Financing for Development, developed countries once again made commitments to providing 0.7 per cent of their gross national income (GNI) as development aid.

According to the United Nations MDG Gap Taskforce Report 2010, aid from members of the Development Assistance Committee (DAC) reached almost $120 billion in 2009, increasing by less than 1 per cent, in real terms. However, the share of ODA in donor GNI was mere 0.31 per cent, well below the target of 0.7 per cent, which has been reached and exceeded by only five donor countries.

Aid budgets rose in Belgium, Finland, France, Norway, the Republic of Korea, Switzerland and the United Kingdom of Great Britain and Northern Ireland, but fell in some countries, particularly those experiencing debt crises. Greece, Ireland, Portugal and Spain all reduced their aid budgets in 2009, along with Austria, Canada, Germany, Japan and the Netherlands (Organization for Economic Cooperation and Development, 2010).

However, based on earlier government aid cuts during previous economic crises, such as in Finland and Sweden in 2001, the World Bank has predicted that development aid may fall by nearly one quarter (World Bank, 2010b). Moreover, even if donors maintain the ratios of their aid to national income, the amount of aid will decline if national income falls. The aid budget has come under pressure as many donor governments turned to fiscal austerity measures. According to the United Nations World Economic Situation and Prospects 2011, the fragile recovery in developed countries and the possible threat of a double-dip recession create considerable uncertainty about the future volume of ODA flows, while aid delivery is falling short of commitments by the donor community.

Remittances

Remittances have become a growing source of income in many developing countries, reaching a high of $336 billion in 2008. In past crises, remittances were counter-cyclical, going up when times were hard in receiving countries, thus furnishing an important buffer against economic shocks. Overall, remittances declined by 6.1 per cent, from $336 billion in 2008 to $315 billion in 2009 (United Nations, 2011). However, in the current crisis, remittances have proven more resilient than private capital flows and are expected to rise again in 2010 and 2011 (Ratha, Mohapatra and Silwal, 2010).

The impact of the crisis on remittances varies by region. Remittance flows to Latin America were down by 12 per cent in 2009. In Eastern Europe and Central Asia, many countries that rely heavily on remittances saw these flows fall by an

estimated 21 per cent. Remittances, equivalent to over 50 per cent of national income in Tajikistan and about 20 per cent in Armenia, have declined by 30 per cent in both countries. North Africa has also been severely affected owing to high unemployment in oil-rich countries. In sub-Saharan Africa, the impact has been smaller, and in some countries, remittances went up. In South and East Asia, remittances have continued to grow, although more slowly than in recent years (Ratha, Mohapatra and Silwal, 2010).

Concluding remarks: bleak prospects for social development

Despite signs of early recovery, the fallout of the Great Recession of 2008-2009 in terms of increased poverty, hunger and unemployment has been significant and will continue to adversely impact on social development. While it is still too soon to quantify with much accuracy the full impact of the crisis on many social outcomes, the current predicament has almost certainly contributed to rising unemployment in developed countries and increasingly vulnerable employment in developing countries. Unemployment is not expected to return to lower pre-crisis levels for many years. As more Governments in developed countries are embarking on fiscal tightening, the prospects for a quick recovery of employment look even gloomier.

Yet, unemployment figures do not tell the whole story: the number of discouraged workers—those who have given up looking for a job and hence are no longer included in unemployment figures—has risen further. The longer-term employment consequences of the current crisis are already becoming visible, as the share of structural or long-term unemployment has increased significantly in most developed countries since 2007. Problems consequent to long-term unemployment will linger, particularly in wealthy countries, and vulnerable employment is likely to persist in developing countries. In many countries, job-rich economic growth remains elusive.

Malnutrition, already on the rise prior to the crisis, remains a grave threat to human well-being. The economic crisis reinforced the effects of the food and fuel price hikes in 2007 and 2008. Although the target under Goal 1 of halving global poverty rates by 2015 (from 1990 levels) is apparently on track to be achieved for the world as a whole,[9] the joint International Monetary Fund-World Bank Global Monitoring Report 2010 estimated that by 2010 an additional 64 million people fell into extreme poverty as a result of the economic crisis alone.

The crisis has also significantly increased the challenge of achieving the Millennium Development Goal targets for universal primary education, child and maternal mortality, and environmental and sanitary conditions. The

9 For details see: www.un.org/millenniumgoals/poverty.shtml.

economic slowdown has reduced the funds available to support social spending in developing countries due to falling revenues and smaller tax bases. Even before the crisis, the requirements for stepping up economic growth and social spending posed significant macroeconomic challenges. These have become all the more pressing, especially where the setbacks caused by the crisis have been the greatest.

The growing pressure for fiscal consolidation has also put social spending at risk in developed countries. To make matters worse, food prices are rising again and have recently passed the previous peak. Extreme weather conditions, likely linked to climate change, threaten food security as never before. The effects of diverting food products to the production of biofuels and as feed for animals and much greater commodity price speculation and volatility with financial asset diversification and lax monetary policies have pushed up food and energy prices again, undermining efforts to reduce poverty and hunger.

Stimulus measures implemented by many Governments have been essential to initiating the global recovery. While a deeper and prolonged global recession was averted, the recovery remains fragile and uneven. The main underlying roots of the crisis have not been addressed, threatening the sustainability of the recovery.

There are still significant uncertainties and risks. Continued high unemployment, financial fragility, exchange-rate instability as well as heightened perceptions of sovereign debt distress and inadequate policy responses could further undermine business and consumer confidence in developed countries. The much hoped for rise in business confidence with the phasing out of the stimulus packages has not materialized in a robust way as overall demand remains depressed. In countries imposing austerity measures, budget cuts are leading to the loss of public sector jobs, a situation which leads in turn to a decline in the ability of people to access publicly provided social services. Thus, with premature withdrawal of various stimulus packages and the imposition of fiscal austerity, the prospect of a double-dip recession cannot be discounted. Recent trends in some European countries underscore this risk.

Chapter II

The Great Recession and the jobs crisis

The global financial and economic crisis triggered sharp output contractions in almost all industrialized economies in 2009 for the first time in the post-Second World War era. Besides the direct impacts of this contraction in developed economies, subsequent declines in cross-border trade and the rising cost of finance had serious negative effects on emerging and developing economies. In particular, as businesses cut production in response to lower aggregate demand, workers were shed in large numbers, sharply increasing unemployment worldwide. Between 2007 and the end of 2009 there was an unprecedented increase in the numbers unemployed (International Monetary Fund and International Labour Organization, 2010). This reported increase in unemployment most likely underestimates the true depth of the problem, since job loss figures are based on official labour statistics, which in many developing countries only covers employment in the formal economy, mainly in urban areas.

Beyond job losses, the quality of employment also deteriorated in both developed and developing countries. Across the globe, many workers who did not lose their jobs were forced to accept reduced working hours as well as lower wages and benefits. In developing countries, a large number of workers lost their jobs in export sectors and were forced into informal and vulnerable employment elsewhere. As chapter I points out, although the global economy recovered more quickly than expected largely due to coordinated stimulus packages, unemployment is still high. The situation is being further aggravated by austerity measures in most developed economies. The Great Recession has thus created a jobs crisis.

The increased job insecurity due to the recession has resulted in sustained and devastating impacts on individuals, families, households and their communities. Communities are affected when manufacturing jobs disappear as a result of plant closures or workforce downsizings, or when young people relocate to other cities and towns in search of better job opportunities. Such job losses since 2008 have pushed countless families into financial and economic hardship, resulting in the loss of homes to foreclosure and increases in poverty, debt and bankruptcy, especially in the United States and other advanced economies. Because work is intimately related to several dimensions of individual well-being, job losses and worsening job and economic insecurity have also been associated with increased poor health, psychological hardship and family dissolution (Stuckler and others, 2009b).

The recession has also affected various social and economic groups in very different ways. In general, women have been disproportionately adversely affected, but in some economies, the adverse impacts on men have been more severe than on women. In other economies, less skilled workers, youth, older persons and migrant workers have suffered in terms of lost jobs, benefits and earnings. These effects have also varied across and within regions and countries.

This chapter examines the social and economic impacts of the global financial and economic crisis and highlights a global jobs crisis involving widespread job losses, increased unemployment and wage repression in developed countries, and characterized by a growing informal economy, increased vulnerable employment and working poverty in developing countries. It briefly reviews the reach of the crisis across demographic and social groups, showing its varied effects on the employment and income of women and men, its disproportionate effect on youth and the strain it imposed on various vulnerable groups in terms of reduced income. In so doing, the chapter highlights the dire consequences that individuals and their families face in both developed and developing economies. It concludes by highlighting some of the major challenges faced in addressing the jobs crisis, and suggests that, besides employment generation and income support, other forms of social protection will be of utmost importance in overcoming the effects of the crisis.

Employment impacts[1]

Prior to the crisis, many countries, including high-growth countries, had large numbers of unemployed and working poor, against a declining trend in the employment content of economic growth. The resulting global impact of the crisis on employment has been devastating. Private companies and public institutions shed millions of jobs and froze new hiring as they sought to reduce labour costs to adjust to shrinking demand for their products and services. This action triggered an unprecedented global increase in the number of jobless persons to 205 million by the end of 2009, 27 million more than in 2007 (International Labour Organization, 2011). According to the latest estimates by the International Labour Organization global unemployment remained unchanged in 2010 compared to 2009—the global unemployment rate stood at 6.2 per cent in 2010. (International Labour Organization, 2011). Although the number of unemployed in 2010 had shown little change from 2009, global job insecurity rose perceptibly. While preliminary estimates suggested that the number of unemployed in 2010 had shown little change from 2009, global job insecurity rose perceptibly. The extent to which this affected different regions and countries varied significantly with the different impacts of the crisis around the globe.

1 The aggregates/groupings employed in this discussion are those used by the International Labour Organization in its Global Employment Trends reports.

High-income countries have generally experienced greater increases in unemployment than upper-middle-income and lower-middle-income countries. From 2008 through the first quarter of 2010, high-income countries endured 7 consecutive quarters of employment loss, which amounted to over 14 million jobs, with 7 million jobs lost in the first half of 2009 alone. Of the 60 countries with available data at the beginning of 2010, 97 per cent of high-income countries had higher unemployment rates, compared to 78 per cent of upper-middle-income countries and 50 per cent of lower-middle-income countries. By the first quarter of 2010, high-income countries had an unemployment rate of about 9 per cent, an increase of more than 3 percentage points over the level of the previous two years. For upper-middle income countries, although the unemployment rate was even higher, at more than 10 per cent at the beginning of 2010, the relative increase was not as dramatic. On the other hand, lower-middle-income countries recorded only marginal increases in the rate of unemployment during the period, with an average just over 6 per cent at the beginning of 2010 (International Labour Organization, International Institute for Labour Studies, 2010).

Of the total increase in global unemployment between 2007 and 2010, 55 per cent occurred in the developed economies and in the European Union group of countries, which account for only 15 per cent of the world's labour force. By the end of 2009, the number of unemployed in this group of countries had risen by nearly 14 million over pre-crisis numbers, an increase of nearly 50 per cent. This increase in the numbers unemployed was far greater than in any other group of countries, more than double the increase of 6 million recorded in East Asia. The unemployment rate also rose most steeply in the developed economies and the European Union group of countries, increasing from 5.8 to 8.4 per cent between 2007 and 2009 (International Labour Organization, 2011).

While economic growth in developed economies and European Union countries started to recover slowly in early 2010, the unemployment rate continued to increase, rising 0.4 percentage points to 8.8 per cent (International Labour Organization, 2011). In the United States, the unemployment rate increased by 4.7 percentage points from 2007 through 2009, and continued to increase by 0.3 percentage points to reach 9.6 per cent in 2010 (United States Department of Labor, Bureau of Labor Statistics, 2011).2 Although the rate had dropped to 8.9 per cent by the end of February 2011, projections indicate that it will take several years before the unemployment rate in the United States returns to its pre-crisis level (United Nations, 2011). Similarly, despite improvements in employment in Germany, the average unemployment rate in the Euro area continued to drift upwards, reaching 10 per cent in 2010, up from 7.5 per cent before the crisis (United States Department of Labor Bureau of Labor Statistics, 2011).

2 For details see: www.bls.gov/fls/intl_unemployment_rates_monthly.pdf.

The unemployment rate in the countries of Central and South-Eastern Europe (non-European Union) and the Commonwealth of Independent States increased by 1.8 percentage points to 10.4 per cent—with unemployment rising by more than 3 million to reach 18.5 million—to register the highest regional rate in the world at the end of 2009 (International Labour Organization, 2011). Latvia recorded one of the steepest increases in the rate of unemployment in the region, rising from 6 per cent in 2007 to 17.1 per cent in 2009. In Estonia and Lithuania, unemployment rates went from being among the lowest on the continent to being among the highest, rising by more than 9 per cent in each case to reach unemployment rates of 13.8 and 13.7 per cent, respectively. In these three countries, the unemployment rate had declined for an average of seven years prior to the crisis (Eurostat, 2011).

The effects of the crisis on unemployment in other regions have been quite different and raise other employment and income concerns. In East Asia, for example, the initial impact of the crisis was quite severe: 20 million workers in China, comprising more than 15 per cent of the estimated 130 million internal migrant workers, were retrenched. In Malaysia, 12,600 workers were retrenched in the first quarter of 2009. Although the number is small in absolute terms, it is nearly four times the 2008 average quarterly number of retrenched workers of 3,460. More than three fourths of the retrenched workers in the first quarter of 2009 were in manufacturing. The Ministry of Manpower and Transmigration of Indonesia reported more than 51,000 job losses, while the Indonesian Employers Association reported more than 237,000 layoffs between October 2008 and March 2009. Between September 2008 and February 2009, employment in the garment sector of Cambodia contracted by 15 per cent. In the Philippines, the number of persons unemployed increased by 6.7 per cent between January 2008 and January 2009. Between March 2008 and March 2009, the number of unemployed persons in Thailand increased by a staggering 73.3 per cent; the number of people on unemployment insurance rose by 17.2 per cent in January 2009 alone, after having risen in 2008 by 38.3 per cent over the previous year (Huynh and others, 2010). In total, unemployment in the region increased by almost 16 per cent to reach 37.6 million people at the end of 2009. Similarly, the unemployment rate increased to 4.4 per cent of the workforce in 2009 from 3.8 per cent in 2007. An improvement in domestic employment in China, as well as the positive spillover effects that its economic growth has had on neighbouring countries, has led to an improvement in economic and employment figures for the region. The regional unemployment rate is estimated to have declined to 4.1 per cent in 2010 (International Labour Organization, 2011).

In Latin America and the Caribbean, where the economies are closely tied to the United States and European markets, the unemployment rate increased from 7.0 per cent in 2008 to 7.7 per cent in 2009. The rate is estimated to have remained fairly stable in 2010, but remains above the global average and that of

the three Asian subregions (Economic Commission for Latin America and the Caribbean and International Labour Organization, 2010).[3]

In most other developing regions, unemployment rates remained stable or showed marginal declines, and there was little change in the numbers unemployed. However, the changes in the unemployment rate do not reflect the full impact of the crisis on employment in these regions, which also involves increased informal economy employment, vulnerable employment and working poverty. As the following section shows, there have been large increases in both informal and vulnerable employment in developing regions. Where the effect of the crisis was most telling in the region was its effect on the unemployment rate for women. While the rate of unemployment among males dropped by 0.6 percentage points between 2007 and 2009, the unemployment rate for females increased by 0.4 percentage points (International Labour Organization, 2011).

In developed countries, there is evidence of rising long-term unemployment and lower participation rates even in countries with employment growth. Experience shows that these trends are difficult to reverse. The risk is that this situation will threaten the level of output and thus longer-term prosperity. The number of people in long-term unemployment – persons unemployed for more than one year – has increased in all countries for which data are available. In addition, in more than 80 per cent of these countries, the share of the long-term unemployed in total unemployment has increased, underscoring that long-term unemployment is growing faster than overall unemployment (International Labour Organization International Institute for Labour Studies, 2010).

Many countries are also witnessing increased numbers of discouraged workers, that is, working-age individuals willing to work but no longer actively seeking employment. Nearly two million people have become discouraged from actively looking for jobs. There is also the danger that more people will leave the labour market entirely; nearly four million workers left the labour market at the end of 2009 (International Labour Organization International Institute for Labour Studies, 2010). Worker discouragement is much higher among younger and older workers.

In the face of weak job creation, underemployment – in the form of shorter working hours or involuntary part-time employment – has also increased rapidly in many countries. For example, since late 2009 part-time job growth has accounted for 40 per cent of the growth in employment in Australia, Canada and the United States. For the affected workers this has meant reduced incomes owing to shortened work periods and deteriorating working conditions. In developing countries, where most workers simply cannot afford to be unemployed, underemployment usually takes the form of informal employment. The informal economy often provides the only means of survival for low-skilled workers

3 East Asia, South-East Asia and the Pacific, and South Asia.

who need to support their families when formal sector job opportunities are unavailable. As workers laid off from the formal economy turn to the informal economy, their work becomes characterized by lower earnings, lower productivity, more difficult working conditions and the increased risk of poverty.

Informal and vulnerable employment[4]

As the global economy expanded over recent decades, job growth lagged behind economic growth to produce "jobless growth", accompanied by the increased casualization of employment and growth in part-time jobs at the cost of full-time jobs. As more formal sector jobs have disappeared, the informal economy and other precarious jobs have served as a major buffer for laid off workers. In developed and middle-income countries, non-standard work arrangements, such as temporary work and contracting or outsourcing, have increased significantly (Kalleberg, 2009; Organization for Economic Cooperation and Development, 2009). In developing countries, the informal economy employs up to 60 per cent of the workforce and produces close to 40 per cent of GDP (Bacchetta, Ernst and Bustamante, 2009; Ihrig and Moe, 2004). The share of informal employment in most developing countries has increased significantly in the last few years as a result of the Great Recession of 2008-2009.

From Asia's massive garment industry to sub-Saharan Africa's low-level leather industry, self-employed (own-account) workers, as well as unpaid family workers, have become increasingly connected to the global economy. This coupling of the formal and informal economies has meant that the informal economy is being increasingly affected by economic recessions in much the same way as the formal economy. Consequently, the Great Recession has subjected informal firms and workers throughout the developing world to lower earnings because of decreased demand, lower prices, fluctuations in interest and exchange rates and reduced access to financial services. Furthermore, the huge inflow of laid-off workers, returning migrants and new labour market entrants into the

4 Vulnerable employment is defined as the sum of own-account workers and contributing family workers. These workers are less likely to have formal work arrangements and lack elements associated with decent employment, such as social security, health benefits and recourse to social dialogue or effective collective bargaining mechanisms. The International Labour Organization considers working poor people under the vulnerable employment sector. It defines the working poor as those employed persons living in a household whose members are estimated to be below the national poverty threshold (see, International Labour Organization (2009a) footnote 10, p. 14). Informal employment comprises own-account workers or self-employed and employers employed in their own informal sector enterprises, contributing family workers or workers employed as domestics paid by households. Employees are considered to have informal jobs if their employment relationship is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits. Therefore, although there are some overlaps between informal and vulnerable employment, they are not exactly the same.

informal economy has also increased competition for jobs among such workers, placing further downward pressure on wages in the informal economy (Cling, Razafindrakoto and Roubaud, 2010).

In Asia, both self-employed and subcontracted home-based workers reported increased numbers (Horn, 2010). A study published by the Asian Development Bank Institute noted that a larger adjustment to retrenchments in developing Asia has been the shift to informal and vulnerable employment (Huynh and others, 2010). For example, in Indonesia, the number of casual workers not in agriculture increased by 7.3 per cent from February 2008 to February 2009. In Thailand, in the first quarter of 2009, the total number of own-account and contributing family workers increased by an astounding 566,000 over the previous year. In the first quarter of 2009, the number of wage employees grew by only 0.6 per cent, whereas those in vulnerable employment increased by 3.2 per cent (Economic Commission for Latin America and the Caribbean and International Labour Organization, 2010). There are so many people in Thailand supplementing their incomes by gathering plastic water bottles for recycling that the price offered for such bottles has dropped (Turk and Mason, 2010). In Cambodia, "cyclo" (tricycle rickshaw) riders reported that the number of cyclos on the streets had increased; such work is more attractive to the self-employed as the start-up costs are low. In India, the Self Employed Women's Association (SEWA) recently estimated that, due to the economic crisis, the decline of key industries, such as diamond cutting and polishing in the city of Ahmedabad in Gujarat State, had caused an increase of almost 25 per cent in the number of informal workers and recently retrenched formal workers seeking work in construction (Horn, 2010).

In 2009, half of the world's workers—nearly 1.53 billion people—were in vulnerable employment. While the global share of workers in vulnerable employment has been declining, the crisis has slowed the decline in some regions and even reversed the downward trend in others. Yet, the number of workers in vulnerable employment has increased in most regions, except for the developed economies and the European Union, Central and South-Eastern Europe (non-European Union), and the Commonwealth of Independent States and East Asia, where there had been some decline (International Labour Organization, 2011).

Vulnerable employment was a significant problem before the crisis in South-East Asia and the Pacific, South Asia and sub-Saharan Africa, and this situation remains unchanged. More than three quarters of all workers in South Asia (78.5 per cent of total employment in 2009) and sub-Saharan Africa (75.8 per cent) are in vulnerable employment, and about two thirds of workers in South-East Asia and the Pacific (61.8 per cent) are in a similar predicament. The severity of the problem in South Asia and sub-Saharan Africa was clearly exacerbated by the crisis: over the period 2007-2009, vulnerable employment increased in South Asia and sub-Saharan Africa by 15.1 and 11.7 million respectively, with more than half the increase taking place in 2009 alone (International Labour Organization, 2011).

The burden of vulnerable employment continues to fall heavily on women and youth, who work mainly in the agricultural and informal economy. In 2009, the share of women in vulnerable employment was 84.0 per cent compared to 69.5 per cent for men (International Labour Organization, 2011).

The majority of Asian workers did not enjoy the security provided by formal salaried employment even in the pre-crisis period. As a result of the crisis, the number in vulnerable employment in South-East Asia and the Pacific increased by 5.4 million to 173.7 million between 2007 and 2009. Even before the onset of the global economic crisis, an estimated 164 million workers were in vulnerable employment, that is, more than ten times as many as the number of people unemployed in the subregion (International Labour Organization, 2011).

In Latin America and the Caribbean, the positive impact on labour markets of several consecutive years of fairly high economic growth can be seen in the reduced share of vulnerable employment. Between 2003 and 2008, the vulnerable employment rate decreased by 3.8 percentage points. Nevertheless, based on currently available information, the rate of vulnerable employment in Latin America and the Caribbean increased in 2009 by 0.4 percentage points (International Labour Organization, 2011).

The increase in vulnerable and informal jobs is worrying as they offer little or no entitlement to redundancy pay or other compensation that workers could use to retrain or serve as a buffer against the income shock associated with job loss. The link between growing informalization and the lack of social protection poses major challenges to workers, employers and Governments as it affects poverty levels and income distribution (Barrientos and Barrientos, 2002; Organization for Economic Cooperation and Development, 2009).

Working poor

The working poor are those who are employed but live in households where individual members subsist below the established measure of income poverty. The reason these people are poor is not because they do not work; they are poor because despite working they cannot earn enough to get out of poverty. In many developing countries, most adults who are poor also work. Their predicament is compounded by the fact that, in many of the countries where they live, there is no unemployment insurance or other form of universal or targeted social protection. In the most vulnerable group of countries, more than 80 per cent of the population has no social security coverage and no access to health services (International Labour Organization, 2010b). The harsh reality facing the working poor is that, in order to survive, a person must either work for an income—no matter how menial that work is—or be dependent upon someone who does work.

Working poverty shares many of the characteristics of extreme poverty. The majority (75 per cent) of the world's working poor live in rural areas, a feature not far removed from the high incidence of poverty among agricultural wage workers, largely due to seasonal unemployment and the low wages available on small farms. Similarly, just as women comprise a higher share of the world's poor, they constitute an estimated 60 per cent of the working poor (International Labour Organization, 2004a).

At the global level, working poverty has been decreasing in both absolute terms and as a share of employment, but the global crisis has significantly slowed progress. From 1999 to 2009, working poverty declined by 13.2 percentage points and the number of working poor fell to 631.9 million, using the $1.25 a day threshold to estimate their numbers (see table II.1). However, had poverty declined at pre-crisis rates, the number of working poor would have fallen by an additional 40 million persons (International Labour Organization, 2011). When working poverty is measured by the $2 a day poverty line, the impact of the crisis has been to reduce the number of working poor by 42 million fewer than would have beeen expected had the pre-crisis trends continued unchanged (see table II.2).

In the past decade, the share of working poverty ($1.25 a day) has fallen most rapidly in East Asia, South-East Asia and the Pacific, and South Asia, with reductions of 29.7, 22.6 and 13.1 percentage points, respectively. Despite the slowdown caused by the crisis, these areas continued to show positive reductions in working poverty, with rates falling by 0.7 to 1.4 per cent from the levels in the period 2008-2009. In all other regions, progress has stagnated or even reversed (see table II.1). Using the $2 a day poverty line, the comparative resilience of East Asian employment is even more marked. East Asia managed to lower working poverty at this level of income by about 2.7 percentage points from that in the period 2008-2009.

The number of working poor (earning below $1.25 a day) in sub-Saharan Africa remains high, increasing by 4.4 million people in 2009, to 174 million, although the share of the working poor in employment remained unchanged (International Labour Organization, 2011). Latin America and the Caribbean showed slightly elevated vulnerability at the $2 a day poverty line between 2008 and 2009.

Impact of the crisis on wages and salaries

The massive loss of jobs worldwide has been accompanied by stagnation, decline or loss of wages. In both developed and developing countries, shrinking tax revenues have resulted in significant declines in national and local government funding of public institutions. Private sector profits have plummeted, while universities and not-for-profit organizations have suffered heavy endowment losses. In response to shrinking budgets and available resources, public and private institutions and companies have attempted to prevent massive layoffs by reducing personnel costs through various means, including job furloughs (unpaid days off), shorter work weeks, wage cuts or freezes, renegotiation of workloads, temporary stoppages, and phased or early retirements.

These changes have had a huge impact on wages and salaries, and hence on the living standards of workers and their families (Belser, 2010; Couch, Jolly and Placzek, 2009). As laid-off workers have suffered from lost wages, high levels of unemployment have exerted downward pressure on the wages of those employed. In the United States and across the countries in the 27-member European Union, wages have declined as full-time workers were forced to accept reduced working hours because of severe budget deficits (O'Farell, 2010). For example, workers in Estonia saw a 7.4 per cent year-on-year decline in average wages in the first quarter of 2009 (European Foundation for the Improvement of Living and Working Conditions, 2010). In California, state workers lost $2.01 billion in wages and benefits during fiscal year 2009/10 as a result of the mandated three days of furlough a month each worker must take (Jacobs, 2009).

Globally, it is estimated that the growth in average monthly wages slowed from 2.8 per cent in 2007, on the eve of the crisis, to 1.5 per cent in 2008 and 1.6 per cent in 2009. If China is excluded from the aggregate, the global average wage growth drops from 2.2 per cent in 2007 to 0.8 per cent in 2008 and 0.7 per cent in 2009. In the advanced economies, real wages declined by 0.5 per cent in 2008 after rising by 0.8 per cent in 2007, and rose by only 0.6 per cent in 2009. In Central and Eastern Europe (non-EU and Commonwealth of Independent States), real wages fell by 0.1 per cent in 2008, following growth of 4.6 per cent in 2008 and 6.6 per cent in 2007. In Latin America and the Caribbean, the growth of real wages decelerated to 1.9 per cent in 2008 and by 2.2 per cent in 2009, from 3.3 per cent in 2007 (International Labour Organization, 2011).

Large declines in real wages do not augur well for national and global economic recovery efforts. Prolonged periods of economic stagnation are often preceded by wage deflation because workers have less money to spend on key drivers of growth, such as consumption of durable goods and services. In addition to lowering domestic demand, lower wages also affect the ability of workers who had sustained high levels of consumption through the utilization of credit to repay their debts. High levels of credit default can affect the health of the financial system as well. For workers whose family incomes place them at or near the poverty line, any deceleration in wages has the potential to push them into poverty. In addition, lost wages affect employee morale and increase stress, both of which are factors often linked to lower productivity among workers.

Table II.1

Indicators for the working poor (earning no more than $1.25 a day)

Region	1999	2003	2008a	2009a	1999	2003	2008a	2009a
	Number of people (millions)				Share in employment (percentage)			
World	875.1	785.6	640.0	631.9	33.9	28.4	21.1	20.7
Central and South-Eastern Europe (non-European Union) and Commonwealth of Independent States	10.6	9.3	7.0	7.0	7.3	6.2	4.3	4.3
East Asia	286.2	203.8	83.1	73.0	38.7	26.0	10.3	9.0
South-East Asia and the Pacific	106.0	81.6	64.3	63.6	45.2	32.5	23.3	22.6
South Asia	285.2	291.7	284.5	282	56.6	52.2	44.9	43.5
Latin America and the Caribbean	26.3	28.0	16.6	17.4	13.0	12.8	6.6	6.9
Middle East	2.8	3.8	3.7	3.7	6.2	7.4	6.0	5.9
North Africa	10.5	11.1	10.5	10.7	21.4	20.2	16.2	16.1
Sub-Saharan Africa	147.5	156.2	170.2	174.6	66.9	63.0	58.5	58.5

Source: International Labour Organization (2011).

a Data for 2008 and 2009 are preliminary estimates.

At the same time, the number of displaced workers[5] has increased globally. Past recessions have shown that, while some of these workers may have begun to find jobs in a recovering global economy, their post-recession wages, particularly for older workers, are likely to be much lower (Rodriguez and Zavodny, 2000). For example, United States workers displaced during the period 1981-1995 who found other jobs were paid real weekly earnings 13 per cent less than their pre-displacement earnings (Farber, 1997). This drop in earnings is due to a number of reasons. First, laid-off workers tend to lose seniority-related benefits accrued with previous employers. Second, they are often confronted with a post-recession labour market requiring different skills sets. Third, new employers often do not adequately compensate fresh workers for skills that they had acquired on a lost job. Hence, while the global economy has begun to recover, it is not certain that today's displaced workers will be able to find jobs that will compensate them at pre-recession levels. Any significant wage shortfalls will diminish their purchasing power, adversely affecting their everyday livelihoods. To improve their future earnings potential, these workers will have to retool their work skills. Many Governments have been proactive in this area, adopting a wide range of training policies to ensure the employability of such workers.

Adverse impacts on demographic and social groups

While the global unemployment rate rose by only 0.6 percentage points from 2007 to 2010, this average figure obscures the quite varied realities in different regions, countries and localities about the extent to which the employment of men, women and young people has been affected by the crisis (see figure II.1). Some of these outcomes can have significant long-term consequences for individuals and households that may persist even after the economic recovery has occurred.

Globally, the number of unemployed men stood at 118.4 million in 2010, an increase of 17 million since 2007, while the number of unemployed women stood at 86.5 million in 2010, up 10.6 million since 2007 (International Labour Organization, 2011). However, women have been adversely affected not only by high levels of unemployment, but also by underemployment, low wages and reduced participation in the formal economy. Evidence from developing regions suggests that women have been negatively affected by labour force segregation. Most layoffs in the Philippines have been in the export processing zones, where 75 per cent of the workers are women. In Thailand, the number of women in manufacturing decreased to 130,000 in late 2008, and women accounted for 63.2 per cent of the total decrease in employment in this sector (Newfarmer,

5 These are workers who joined the ranks of the unemployed because their positions were eliminated, their company closed, or their jobs were lost to countries with lower labour costs.

Table II.2

Indicators for the working poor (earning no more than $2 a day)

Region	1999	2003	2008[a]	2009[a]	1999	2003	2008[a]	2009[a]
	Numbers of people (millions)				Share in employment (percentage)			
World	1403.1	1346.6	1199.1	1193.2	54.3	48.6	39.6	39.1
Central and South-Eastern Europe (non-European Union) & Commonwealth of Independent States	32.1	23.5	20.9	21.6	22.2	15.7	12.9	13.5
East Asia	494.4	395.8	224.5	204.2	66.8	50.4	27.8	25.1
South-East Asia and the Pacific	167.4	156.6	142.2	143.0	71.3	62.4	51.4	50.9
South Asia	434.7	471.3	504.2	508.5	86.3	84.3	79.5	78.5
Latin America and the Caribbean	55.3	56.9	38.5	40.3	27.3	26.0	15.3	15.9
Middle East	8.8	11.7	11.5	11.7	19.4	22.7	18.8	18.7
North Africa	20.7	21.5	20.6	20.7	42.2	39.1	31.7	31.2
Sub-Saharan Africa	189.6	209.3	236.7	243.2	86.1	84.4	81.4	81.5

Source: International Labour Organization (2011).

a Data for 2008 and 2009 are preliminary estimates.

2009). Similarly, a third of the 30,000 mostly women workers in "maquila"[6] factories in Nicaragua, who produce garments and other export goods, lost their jobs (Green, King and Miller-Dawkins, 2010). In the Middle East and North Africa, strong cultural, social and economic gender divisions in the work force continue to favour males over females. Some employers openly prefer male job-seekers, while others prefer women for only low-skilled and low-paid work (International Labour Organization, 2010c). In these regions, employment is male-dominated, and there are even fewer opportunities for women in tight labour markets (Dhillon and others, 2009).

However, for the most part, men in developed economies have fared worse than women, as they are concentrated in those sectors most seriously affected by the crisis, particularly construction and the manufacture of durable goods. In the United States and Europe, more than 6 million jobs were lost in manufacturing, 2.8 million in construction and 2.3 million in wholesale and retail trade—sectors largely dominated by male workers. Employment in these sectors continues to decline further and faster than those with more women, such as the public sector, health care and education (International Labour Organization, 2010d).

Women also tend to be overrepresented in vulnerable and informal employment in most countries. They have access to fewer good-quality jobs within the formal economy than men. Their incomes are lower, they are less protected by social security and usually get more precarious work, such as domestic service and other care work. Many employers in the informal economy who hire large numbers of women have been affected by decreased demand, while many have taken advantage of the new situation to reduce employee rights and remuneration. Many women in the informal economy thus face job loss, poorer work conditions and more casual employment contracts.

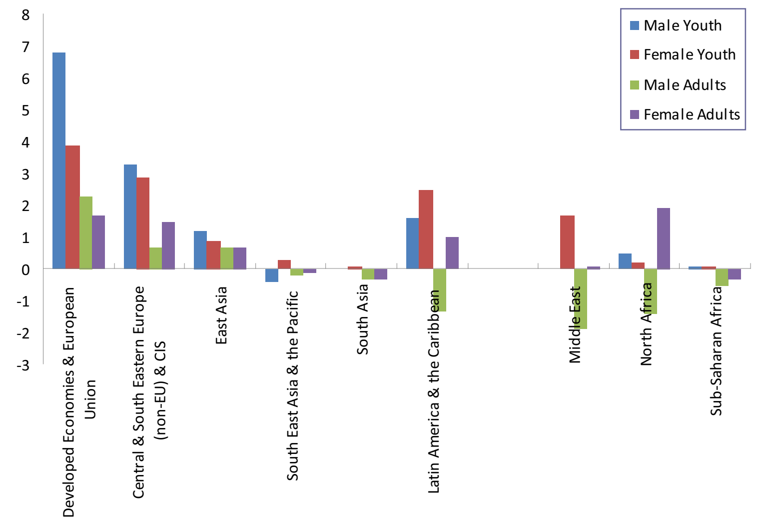
The global recession has also affected women's wages at least as much as those of men. Wage data for 22 countries indicate that the gender gap in pay did not change in 2008. Women still earned wages about 80 per cent of those earned by men (International Labour Organization, 2009a). However, in some countries, the gender pay gap has worsened. In the United Kingdom and the United States, the gender pay gap increased in 2008, reversing gains in earlier years.

Youth as a group have also been strongly affected by unemployment, having entered the crisis with unemployment rates well above those of their older counterparts. The global youth unemployment rate stood at 12.6 per cent in 2010, up from 11.8 per cent in 2007 (International Labour Organization, 2011). Even before the global economic downturn, youth already faced an employment crisis and higher risk of low pay. In all regions of the world, youth (aged 15-24 years) have been

6 A factory in Latin America that imports materials/equipment duty/tariff-free for assembly/ manufacture and then re-exports the finished products to the country of origin or elsewhere.

Figure II.1

Change in youth and adult unemployment rates by gender, 2007-2009



Source: International Labour Organization (2010e), figure 12 and tables A5 and A6; and International Labour Organization (2008c), table A6.

more likely than adults to be unemployed. This situation has existed at least since the mid-1990s, with the ratio of the youth-to-adult unemployment rate reportedly as high as 3.5 in 2003 (International Labour Organization, 2004b; 2008). Although this ratio has declined since then, early estimates still place the ratio between youth and adult unemployment rates at 2.7 in 2009 (International Labour Organization, 2010e). Moreover, in most regions over the period 2007-2009, youth unemployment rose more sharply than for adults (see figure II.2) and in 2009, more than 79 million young people aged 15 to 24 years were unemployed, one of the highest levels ever. The global youth unemployment rate is expected to remain at about 13 per cent through 2010 (International Labour Organization, 2011).

Regardless of the observed regional and country-level differences, the evidence indicates that, on average, crisis-induced job losses have affected youth more seriously and more immediately than adults, suggesting that young people are more disadvantaged with regard to job placement, wages and job security.

International Labour Organization (2010e) observed "significant consequences for young people as upcoming cohorts of new entrants join the ranks of the already unemployed" and warned of the "risk of a crisis legacy of a 'lost generation' comprised of young people who have dropped out of the labour market, having lost all hope of being able to work for a decent living". Also the job market for youth is likely to recover more slowly than that for adults, the number of young people stuck in working poverty will continue to grow while working poverty will likely persist for at least another generation. Among young people, young women find it more difficult to find work, with early estimates putting the female youth unemployment rate in 2009 at 13.2 per cent compared with the male rate of 12.9 per cent (International Labour Organization, 2010e).

Youth unemployment, exacerbated by the crisis, can have long-term effects on the social trajectory of youth, their families and their communities (International Monetary Fund and International Labour Organization, 2010). University and college graduates can be negatively affected in terms of their placement with firms, their potential earnings and prospects for job mobility. In most cases, the negative effects last slightly more than a decade before these workers eventually move to higher-paying firms. Studies in Canada and the United States have demonstrated the poorer employment prospects of graduates during periods of economic downturn: recent graduates normally start in less attractive firms or simply take up low-paying jobs (Kahn, 2009; Oyer, 2006). For example, students who graduated during the United States recession of the 1980s earned 7-8 per cent less in their first year than those who had graduated in better times (Kahn, 2009) More recent evidence points to a similar labour market phenomenon as a result of the recent crisis (Rampell, 2011). In Canada, labour market entrants during past recessions suffered initial earning losses of about 9 per cent, which were only offset after about 10 years (Oreopoulos, Von Wachter and Heisz, 2006). Furthermore, poor early experiences in the labour market undermine the future marketability and earning potential of those who graduate during hard times.

In addition, long-term unemployment and underemployment can have debilitating psychological effects on young workers, which may lead young people to withdraw from the labour market altogether (International Labour Organization, 2010e). In some cases, the decline in youth labour market participation is compensated by increased education enrolment as the opportunity cost of staying in school longer can be lower when labour market opportunities are depressed. Where this has not occurred, the probability of discouragement increases, making youth more apathetic in both seeking employment and furthering their education. Based on this historical experience, as well as on more recent anecdotal evidence, youth who become unemployed or enter the labour market during a time of crisis are likely to face longer spells of unemployment in the future, or become stuck in low-wage employment (Arulampalam, Gregg and Gregory, 2001; Böheim and Taylor, 2002; Gregg and Tominey, 2005; Murray, 2009).

As with women and youth, older workers, indigenous peoples, migrant workers and ethnic and religious minorities also face bias in the labour market. Among different groups of workers, overseas migrant workers, particularly newly arrived migrants, are perhaps most seriously disadvantaged and often among the first to lose jobs. In many cases, they have invested heavily in getting recruited and travelling to work in a foreign country. Therefore, returning to their home country is often not an option, and they are more likely to accept almost any terms just to retain their jobs. And when they have lost their jobs and work permits, they become illegal or undocumented, forced to turn to income opportunities in the informal or shadow economy.

For indigenous groups, unemployment has tended to be higher than the average for the general population, and this situation has worsened since the crisis. In Australia, for example, the gap in unemployment rates between indigenous and non-indigenous populations increased from 9.6 to 12.6 per cent between 2007 and 2009 (Drape, 2010).

Older workers who lose their jobs tend to encounter greater difficulty in finding new work than younger workers. In the United Kingdom, out of work men in their 50s only had a one-in-five chance of being in a job two years later; the longer they remained unemployed, the worse were their chances of finding employment. In addition, many cannot afford to wait for the value of their pension savings to recover before drawing upon their retirement benefits (Age Concern and Help the Aged, 2009).

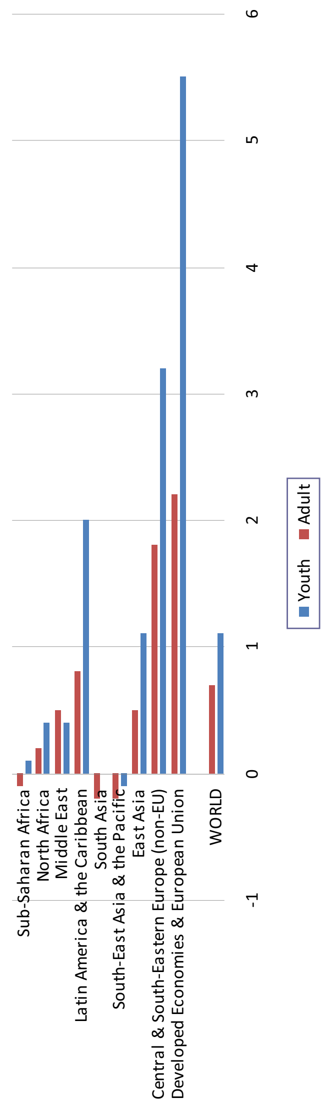
At the same time, older persons, especially in developed economies, have seen their incomes shrink as the value of their pension funds has fallen. In the OECD countries, private pension funds lost 23 per cent of their investment value in 2008, equivalent to $5.4 trillion in aggregate (Organization for Economic Cooperation and Development, 2009). The impact of the decline in private pensions has been greatest in countries such as Australia, Denmark, the Netherlands, the United Kingdom and the United States, where private pensions play a major role in providing old-age incomes. In addition, underfunded pension schemes have become financially vulnerable. For example, in the United States in 2010, for the first time since the Social Security Amendments of 1983, annual Social Security outlays exceeded revenues by some $29 billion (Congress of the United States, Congressional Budget Office, 2010).

For older persons in developing countries, most of whom are not covered by social security or other retirement income schemes, the financial crisis increased their vulnerability. Although there has been little evidence concerning the impact of the crisis on older persons in developing countries, selected survey data are becoming available. For example, the non-governmental organization AgeWell's survey of over 1,500 persons aged 55 years and older throughout India found that many older persons have taken measures to mitigate the effects of the recession by returning to work and by reducing expenses on recreational facilities and luxuries. Older public sector workers have postponed plans for voluntary retirement. The majority (60 per cent) of the survey respondents owned stocks, with 80 per cent of them having lost money in their stock trading accounts (Alvi, 2009).

There have also been visible effects on household incomes. In the United

Figure II.2

Changes in youth and adult employment rates: 2007-2009



Source:: International Labour Organization (2011), table A3.

States, the net worth of the average American family was reduced by about 20 per cent, the largest such decline since the end of the Second World War (Warner, 2010). In the United Kingdom, during the period 2007-2009, real incomes decreased for many households, especially those with heads of households between 25 and 34 years of age. Households with children experienced greater decreases in income than childless households, while households with more children suffered greater decreases in income than those with fewer children (Howell, Leaker and Barrett, 2010). In developing regions, increased working poverty has reduced household income levels.

Impacts on household dynamics and human development

The impact of the crisis on income and employment prospects has also affected the dynamics in households and families. When household incomes decline, gender differences grow in terms of time use, particularly with respect to unpaid work, as women take on even larger shares of unpaid work and care-giving responsibilities. For the most part, the difference in time use by males and females has remained unchanged.

However, in developed economies, where men have been most severely affected by the crisis, income-generating and care-giving roles have been reversed in more households and the number of stay-at-home fathers has increased. In the United States, the number of households with mothers as the only working spouse rose by 1.5 per cent between 2008 and 2009. At the same time, the number of households with two working spouses decreased by 2.9 per cent, suggesting that more females becoming sole breadwinners may be linked to their male partners being laid off or retired early (United States Department of Labor, Bureau of Labor Statistics 2010).

The effect of the crisis on migrant workers has dealt a huge blow to household income and family dynamics in developing countries. Migrant remittances are key to the welfare of recipient families and communities, but officially recorded remittances fell by 6 percentage points between 2008 and 2009 (United Nations Children's Fund, 2010). This probably implies that many more households have become poorer than would have been the case otherwise. Many families have been forced to rely on social assistance where available, adding to the strain on economies already hampered by slow economic growth (see Cortina, 2009, for the case of Mexico). To cope with the crisis, many women in Viet Nam, for example, have moved to the informal economy, or increasingly rely on community-based assistance programmes (Nguanbanchong, 2010).

The effect of the crisis on children has also been significant. In both developed and developing countries, reduced family incomes have required parents to adjust consumption patterns, including by making cuts in health and education expenditures. A weak or moribund economy affects the educational attainment of students from middle- and low-income backgrounds. Parental job loss increases by about 15 per cent the probability that a child will have to repeat a grade in school (Stevens and Schaller, 2009). In addition, such students may not be able to afford the required tuition and other out of pocket expenses.

On the other hand, the opportunity cost of staying in school longer can be lower when labour market opportunities are depressed. As demonstrated in past crises, a consequence of the current crisis is likely to be increased child labour. For example, in the Philippines during the 1997-1998 Asian financial crisis there was a drop in school enrolment rates while child labour rose among 10-14-year-olds. There was also an observed increase in the labour exploitation of girls in Indonesia and Thailand. When parents cannot afford school costs or the loss of a child's potential contribution to household income, children are more likely to stop attending school and to begin work at an early age.

Where the current crisis and fiscal austerity measures lead to education budget cuts, or if international support for education is reduced, the number of children who leave, or never attend, school to join the ranks of the child labour force could also increase. Among the most important factors that have contributed to recent declines in child labour were increased efforts to extend education, with the abolition of school fees at the primary level and extension of coverage to junior secondary education. There is already a serious concern that the impact of food price increases in many developing countries has had a negative impact on school attendance, leading to increasing numbers of children joining the workforce. Some countries were especially vulnerable to the economic crisis due to measures already taken in response to the food crisis, which overstretched their fiscal capacity. There is also the added gender dimension: when poor families have to make a choice between sending a boy or girl to school, studies have shown that, even under pre-crisis conditions, parents often choose to invest in the education of their sons, for example, so as to not lose their daughters' more significant contributions to housework.

Concluding remarks: the jobs crisis persists

The crisis is slowing progress in human and social development due to the combination of falling incomes owing to job losses and increased vulnerable employment, higher proportions of household expenditure spent on basic needs, worsening nutritional outcomes and more limited coping mechanisms. The longer crisis-induced distress in labour markets persist, the more workers, their families and their communities will be at risk of being trapped in long-lasting poverty. The ongoing cuts in public social spending in some countries can only serve to further increase the number of working poor and to heighten inequities and inequalities. Rising fiscal pressure in poor countries, particularly those heavily dependent on exports, may also lead to cutbacks in public expenditure on basic services (Sanchez and Vos, 2009).

Therefore, much needs to be done to quell, if not reverse, the ongoing jobs crisis. The stimulus measures implemented by Governments since the onset of the crisis have succeeded not only in supporting economies but also in avoiding further significant job losses. However, the ongoing wave of fiscal austerity measures may slow the creation of jobs and delay employment recovery. In addition, developing countries with limited fiscal space have experienced difficulties in overcoming the effects of the crisis and face significant challenges in their efforts to achieve a more sustainable recovery. With the informal economy serving as a buffer for laid-off workers and helping to absorb new labour market entrants who cannot find jobs in the formal sector, high levels of informal and vulnerable employment are likely to continue well beyond the crisis.

The policy debate at the national and international levels has been heavily tilted towards addressing the employment crisis in the formal economy, while very little attention has been paid to the informal economy. It is important that the challenges facing the informal economy be addressed both from the perspective of enhancing long-term, competitive productive capacity and of improving the job and income security of informal workers.

Economic recovery will not be achieved until the employment situation improves in a sustainable manner. However, to restore employment, even to pre-crisis levels, economic growth should be sufficiently robust to also compensate for increases in the size of the working population. Yet, restoring employment to pre-crisis levels is insufficient because the period preceding the crisis was remarkable for its "job-poor" or "jobless growth".

It is thus important to set employment goals beyond the pre-crisis levels. This will require that priority be given to job and income security with greater emphasis on the creation and sustainability of decent work and social protection. The experience of the 1997-1998 Asian financial crisis shows that many countries did not regain their pre-crisis employment levels until employment and social protection goals were put at the centre of economic and social policies. Without social protection, working poverty is likely to increase in most developing countries.

A prolonged jobs crisis harbours major risks for social and political stability, and the increasing burden of unemployment on young people seriously challenges the ability of Governments to maintain social cohesion. It is essential to take measures to ensure that youth, women, older persons, persons with disabilities, indigenous peoples and other groups are not discriminated against in the labour market. It is therefore critical that well-designed active labour market policies be put in place to support job search assistance, retrain the unemployed, improve public employment services and facilitate school-to-work transition for these vulnerable groups. These measures imply more public spending, counter to the austerity measures being adopted in some major industrialized economies. However, the timing and sequence of the austerity measures will be critical to achieving a smooth recovery. In the near term, such measures to reduce unemployment can boost budget balances and lead to fiscal deficits not necessarily higher than those under austerity policy responses alone. Therefore, an effective economic recovery requires an exercise in effective policy coherence—involving macroeconomic policies, employment generation and social policies. Chapters V and VI look at the national and international responses to the Great Recession and underscore the many challenges to achieving a sustainable and job-rich recovery.

Chapter III

Incomes, poverty and well-being

The effects of the widespread job losses described in the preceding chapter have been hard on individuals and households, particularly in developing countries where there are no or scant social protection measures. The severe impacts of the global financial and economic crisis began to be felt at a time when budgets had already been squeezed by the earlier food and energy price crises. As a result, the progress that many countries had made in reducing poverty has been slowed and, in some cases, even reversed.

Greater social unrest and manifestations of deviance, alienation and frustration, ranging from domestic violence to street protests, may have risen as a result of the crisis, further threatening social cohesion. The crisis has also adversely affected health and education. Spending in these areas—at the household, community, national and international levels—is under threat and has been reduced in numerous countries. Many observers have linked recent political and social unrest in the Middle East and North Africa to higher food prices and youth unemployment.

This chapter focuses on assessing the impact of the crisis on multidimensional poverty, including health, education, income, social conflicts and social cohesion. However, the ability to monitor and assess the impact of the crisis on poverty is complicated by the unprecedented nature and sequencing of various aspects of the crisis. Much of the impact of the financial and economic crisis on multidimensional poverty will not be felt for some time in view of the time lag between the start of the crisis and the manifestation of its full impacts.

The availability and quality of relevant data are also issues. It may be years before representative sample survey data are available that would enable more precise assessments to be undertaken concerning the consequences of the crisis for health, education and poverty. Household surveys that have recently become available suggest, for example, that official data on school enrolment may underestimate the out-of-school population by as much as 30 per cent. Although the weaknesses of income poverty measures have been well established,[1] and despite data limitations, it remains important to assess the impact of the crisis on poverty based on the information available.

1 For a detailed discussion of poverty measurement, see United Nations (2010a, chapter II).

The context of the crisis

Income poverty

Prior to the recent crisis many countries had already made large strides in reducing extreme poverty. Worldwide, the incidence of poverty had fallen 40 per cent since 1990, and the first target of the Millennium Development Goals, that is, halving poverty by 2015, is generally expected to be met in many regions and countries. For example, East Asia has already halved poverty, in large part due to the rapid economic growth in China.

However, the observed global improvement in poverty conceals important divergent regional trends. Specifically, sub-Saharan Africa, West Asia and parts of Eastern Europe and Central Asia are not expected to attain the poverty target of the Goals; in fact, many countries in these regions have experienced increases in poverty, although the overall rate of poverty remains relatively low. Sub-Saharan Africa has the highest poverty rate of all the regions. Although poverty reduction in Africa has lagged behind other regions, poverty levels in the region have stopped rising and begun declining since the 1990s. However, after the crisis started, many living in extreme poverty have slipped further below the poverty line, and will now find it even harder to escape poverty. It has been observed that, in general, the higher the poverty rate, the less responsive that rate is to economic growth and the slower the decline in poverty (United Nations, 2010d).

Health

Deprivations in well-being in terms of health status and access to health care are key dimensions of poverty. Poor health can be both a cause and an effect of poverty: people living in poverty are less likely to have access to adequate health care and are more likely to suffer from illnesses and to die at younger ages than those living above the poverty line. Vulnerable families can be pushed into poverty when a family member becomes ill and requires costly medication and treatment. Prior to the crisis, considerable progress was being made towards attaining the health-related targets[2] of the Millennium Development Goals, but these targets continue to pose a formidable challenge and are not expected to be met in many countries.

There is mixed evidence on progress attained in reducing maternal mortality.[3] Progress towards reducing births among adolescents has slowed, and even been reversed in some cases, but the urban to rural gap is growing in many countries.

2 The Goals directly concerned with health are Goal 4 (reduce child mortality), Goal 5 (improve maternal health), and Goal 6 (combat HIV/AIDS, malaria and other diseases).

3 The maternal mortality ratio is the number of deaths among women due to pregnancy and childbirth complications per 100,000 live births in a given year. Official statistics on maternal mortality are available from: http://mdgs.un.org.

Box III.1

Inequality and health: the case of maternal mortality

New estimates of maternal mortality suggest a significant decline in the maternal mortality ratio of 34 per cent since 1990, although maternal deaths remained unacceptably high at 358,000 in 2008 (World Health Organization, 2010). The rate of decline is well below that needed to achieve MDG 5, i.e. to reduce the maternal mortality ratio by three quarters by the target year of 2015. Increases in the share of births attended by skilled health personnel bode well for improvements in maternal survival. Between 1990 and 2008, the proportion of women in developing countries who received skilled assistance during delivery rose from 53 to 63 per cent, but this figure is still far too low.

The global distribution of maternal deaths is highly skewed: developing countries account for 99 per cent of maternal deaths (355,000). Maternal health is highly sensitive to inequality within countries, a situation which the crisis has worsened, with poor women being much less likely to receive appropriate care than better-off women. In South Asia, the best-off women are five times more likely than the poorest to be attended by trained health-care workers during delivery (United Nations, 2010d). In sub-Saharan Africa, the best-off are three times more likely to have received such care.

Progress towards satisfying women's unmet need for contraception, an important means of reducing unwanted births and maternal mortality, has slowed in recent years. Aid for family planning as a percentage of total health aid declined from 8.2 to 3.2 per cent between 2000 and 2009 (United Nations, 2010d).

The number of child deaths has dropped by 28 per cent since 1990. However, the rate of decline is too slow to meet the target under Goal 4: reduce the under-five mortality rate by two thirds between 1990 and 2015. Only 10 of 67 countries with high child mortality (defined as 40 or more deaths per 1,000 births) are on track to meet the agreed target. Half of all deaths of children under age 5 in 2008 occurred in sub-Saharan Africa. Since most child deaths are preventable with simple, low-cost interventions, such as antibiotics, immunization, oral rehydration therapy and insecticide-treated mosquito nets, persistently high child mortality is unacceptable. New vaccines for pneumonia and rotaviral diarrhoea could greatly reduce child mortality (United Nations, 2010d). However, the economic crisis is expected to interrupt progress towards increased child survival rates, as expenditure on research on vaccines and health-care is cut.

Access to safe drinking water and sanitation is vital for child survival and more positive health outcomes. Between 1990 and 2006, more than 1.6 billion people gained access to improved water sources. Sanitation has proven more challenging, however, with almost half the population of developing countries lacking adequate sanitation facilities. It is likely that the crisis may have affected progress in these areas as well.

The human immunodeficiency virus (HIV) and AIDS remain the world's leading cause of disease and death. The number of new HIV infections has fallen from a peak of 3.5 million in 1996 to 2 million in 2008 but, despite this success, the rate of increase of new infections outstrips the ability of health agencies to provide those infected with life-prolonging and life-improving antiretroviral therapy. In the case of malaria, improved access to insecticide-treated bed nets and antimalarial medications has helped to lower the incidence of the disease but, as with other health interventions, access is unequally distributed across income groups. For example, in sub-Saharan Africa, 46 per cent of children in the richest wealth quintile who had a fever received antimalarial medication as compared with only 27 per cent of febrile children in the poorest quintile who received antimalarial medication (United Nations, 2010d).

Hunger and undernutrition contribute to a number of negative health consequences. More than one third of child deaths are attributable to malnutrition. The number of people suffering from hunger was on the rise, even before the onset of the food and economic crises. In 2009, the economic crisis increased the number of food insecure persons by about 9 per cent in 2009, over and above the pre-crisis projected baseline increase of 2 per cent for 2009 (Food and Agriculture Organization of the United Nations, 2009a). In other words, the number of undernourished people in the world rose to 1.02 billion during 2009, the highest level of chronically hungry people since 1970, even though international food commodity prices had declined from their earlier peaks.[4]

Education

Education is an asset that individuals can use to increase their employment opportunities and income. However, there is a mutually-reinforcing relationship between education and poverty: lack of education increases the risk of poverty, and living in poverty lowers educational prospects. Before the crisis, significant improvements had been made towards achieving universal primary education, and enrolment in primary education had reached 89 per cent in the developing world. Gender parity in enrolment had also been improving: the share of girls out of school declined from 57 to 53 per cent worldwide between 1998 and 2008, while the number of children out of school fell from 105 million in 1999 to 72 million in 2007. In South and West Asia, the out-of-school population was more than halved, and fell by more than a quarter in sub-Saharan Africa.

Recent progress in education has been driven by education policies, economic growth and poverty reduction, all of which were exacerbated by the crisis. As pointed out in the previous chapter, slowing growth is expected to trap several million more people in poverty and to shrink national budgets, putting pressure on budgets for education. A shortage of teachers has proven to be a barrier to achieving universal primary enrolment, particularly in sub-Saharan Africa, where

4 The number of hungry people worldwide dropped marginally to 925 million in 2010.

twice the number of existing teachers is needed to staff classrooms and to enable the region to achieve the Goal.

Impact of crises on social indicators

Evidence from previous crises

Volatility in economic growth is detrimental to human development. It has been observed that social indicators decline more rapidly during economic downturns than they improve during periods of high growth. In the face of such asymmetry, two countries with similar net growth would have very different social outcomes if one experienced stable growth and the other more volatile growth – all else remaining equal. Furthermore, vulnerable populations, such as women, children and ethnic minorities, are often disproportionately harmed by such volatility in economic growth (World Bank and International Monetary Fund, 2010).

A recent World Bank and International Monetary Fund study quantifying this asymmetry found that, during the period 1980-2008, life expectancy increased by two years during periods of economic growth acceleration but declined by 6.5 years during periods of deceleration.[5] Infant mortality[6] was 8 per 1,000 live births lower during periods of economic acceleration and 24 per 1,000 higher during periods of deceleration. Completion of primary school followed a similar pattern: the rate was 4 per cent higher in good times, but 25 per cent lower in difficult times. The correlation between economic contraction and decline in social indicators is also stronger than that between growth and improved social indicators (World Bank and International Monetary Fund, 2010).

This asymmetrical relationship is also mirrored in indicators of institutional quality, including government effectiveness and political stability. In sub-Saharan Africa, the frequency of conflicts during times of deceleration was 23 per cent compared with 13 per cent during periods of acceleration.

The same study found that economic downturns also widen the gaps between boys and girls, supporting the oft-made claim that intrahousehold resource allocation favours boys over girls when resources are scarce. For example, in difficult times, life expectancy decreased by six years for boys but by seven years for girls. Moreover this gap does not narrow on the upswing: in good times, life expectancy for girls and boys rose equally – by two years for each sex.

As more families face unemployment and reduced wages, one coping

5 For definitions of acceleration and deceleration used in the present report, see World Bank and International Monetary Fund (2010, p. 30).

6 The number of deaths among infants under one year of age in a given year per 1,000 live births in that year.

mechanism, particularly among the poorest, is to take children out of school in order to save on educational expenses and enable children to contribute economically to household welfare. However, when children are taken out of school they are unlikely to return and will suffer life-long deficits in terms of lost potential, educational attainment, productivity and income. The crisis is expected to lead to more girls than boys being taken out of school, a phenomenon that will widen the gender gap in enrolment. During periods of downturn, the primary school completion rate has been found to go down by 29 per cent for girls and 22 per cent for boys, but as the economy improved it rose by only 5 per cent for girls and 3 per cent for boys. These figures are global averages, but country- and region-specific differences also affect the extent to which economic downturns influence social indicators. For example, the impact of economic growth and contraction on social indicators in sub-Saharan Africa was lower than the global average, suggesting that the less developed countries were less sensitive to volatility in economic growth (World Bank and International Monetary Fund, 2010)), or that they suffered less in this regard because they were less integrated financially, although they were hard hit by their greater reliance on trade.

Although social safety nets in developing countries tend to be small and disjointed, there is growing recognition of their importance, and they are becoming more common in the response of Governments to recent crises. In response to the crisis, several countries expanded existing programmes or implemented new ones: The Republic of Yemen extended its cash for work and cash transfer programmes. The Philippines launched a conditional cash transfer program that was scaled up in response to the crisis. Brazil expanded its successful Bolsa Familia programme to include an additional 12 million families and increased the benefit by 10 per cent to compensate for increased food prices (World Bank and International Monetary Fund, 2010).

The impact of the food crisis

The food crisis pushed an estimated 130-155 million people into poverty in 2008. The recent economic crisis was expected to add between 47 million and 84 million people to the ranks of the poor (United Nations, 2010d). These estimates include people previously above the poverty line who recently fell into poverty as well as those who would have escaped poverty had the crisis not occurred. Although overall poverty rates may continue to fall, they will do so more slowly than had been the trend previously. Despite current expectations that many countries will reach the Goal on poverty reduction by 2015, the crisis has still hurt millions, if not billions of people. It is affecting the incidence of poverty in a variety of ways, including declines in trade, remittances and development assistance (World Bank and International Monetary Fund, 2010) besides the other channels already identified earlier.

Drawing on the experiences gained from previous crises and taking into

account how households have responded to lost wages, it is estimated that 350,000 more students will not complete primary education by 2015 as a result of this crisis (United Nations Educational Scientific and Cultural Organization, 2010). It is likely that the full impact of the crisis on many health indicators will not be known for at least two years as analysts await the results of health surveys and other data. Some effects, such as increased mortality due to poorer nutrition and health care, may persist for many years. Indirect estimates give some idea of the magnitude of the outcomes that can be expected. The setbacks caused by the crisis are expected to lead to the deaths of 1.2 million more children under age 5 and 265,000 more infants between 2009 and 2015 (World Bank and International Monetary Fund, 2010). In Africa alone, 30,000 to 50,000 additional infant deaths are estimated to have occurred in 2009 as a result of the crisis, with virtually all these deaths affecting female infants (Friedman and Schady, 2009). A survey in Armenia found food consumption to be down by 41 per cent and health-care spending down by 47 per cent. In Mozambique, compromised nutrition is having dire consequences on child development. In Bangladesh, one third of households reportedly cut spending on education to cope with rising food prices (United Nations Educational, Scientific and Cultural Organization, 2010).

The combined effects of the spikes in food prices that occurred in 2008, the continuing high food prices and declining incomes as a result of the economic crisis have resulted in more undernourished people in the world than at any time in living memory. The current economic crisis is estimated to have added an additional 41 million undernourished people to the global total than would have been the case without the crisis (World Bank and International Monetary Fund, 2010). Poor households normally spend 50 to 80 per cent of their incomes on basic foodstuffs, and when food prices rise they are forced to cut spending on non-food items, such as health care and education. In some countries, household spending on food increased by 100 per cent while earnings stayed the same. Studies from previous crises show that, as prices increase, households reduce their consumption of more nourishing (and invariably, more expensive) food items, such as meat, poultry, eggs, fish, fruit and vegetables. When families are forced to make further spending cuts, they reduce the size and frequency of their already poorer-quality meals. Recent analysis shows that global undernourishment increased by 6.8 per cent due to food, energy and economic crises, adding 63 million people to the ranks of the undernourished.

Undernourishment, particularly among children and infants 0-24 months, can have life-long consequences with regard to their physical and cognitive development. Undernourishment accounts for 11 per cent of the total global disease burden and 35 per cent of that among children under age 5 (de Pee and others, 2010). Reducing malnutrition is also essential to achieving other Millennium Development Goals; lack of progress in improving nutrition will have multiplier effects in other areas, such as child and maternal mortality. Increasingly, in response to the deleterious effects of the crisis, households will reduce health-care visits and health expenditures, children in affected households will drop out of school and valuable assets will be sold off.

Much depends on the pace of recovery

While some signs indicate that an economic recovery is under way, even small reductions in growth can have lasting negative consequences for many dimensions of poverty. Several of the Millennium Development Goals are unlikely to be met, either globally, or by many countries at the national level. Uncertainty about the pace of the recovery, the fear of a "double-dip" recession, as well as the lag time between output and social recovery, all make reliable estimation of the impacts of the crisis very difficult indeed.

It is possible to get some indication of the impact of the crisis on poverty levels by comparing two economic growth recovery scenarios to the pre-crisis economic growth trajectory (World Bank and International Monetary Fund, 2010). The first post-crisis scenario assumes a relatively rapid recovery where economic growth resumed in 2010 and continues into the future. This scenario assumes that there is no second dip causing slowed or stalled growth. If this scenario holds, by 2010, the number of additional people in poverty due to the crisis would reach 64 million. By 2015 and 2020, an additional 53 million and 71 million people, respectively, will have dropped below the poverty threshold. In this rapid recovery scenario, the goal of halving poverty would still be met by 2015.

The second scenario takes into consideration the potential for extended slow economic growth over a period of about five years, as in previous crises. In this slow recovery scenario, the poverty rate would only fall to 18.5 per cent in 2015, causing the first target of the Millennium Development Goals to be missed. The slow recovery scenario would result in 227 million more people being pushed into poverty by 2020. In sub-Saharan Africa, poverty is expected to fall to 35.8 per cent in 2015 (World Bank and International Monetary Fund, 2011). As many as 2 billion people – one third of the population of developing countries – are expected to remain in poverty at the $2-a-day threshold by 2015.

These projections highlight two important points: first, the pace of recovery is very important in determining the impact of the crisis on future poverty levels. Second, it is difficult to determine the ultimate impacts of the crisis on long-term poverty trends and social development. In comparing the pre-crisis trend with the current recovery trajectory, gaps in the achievement of other Goals can also be estimated. As a result of the crisis, the world can expect 55 million more infant deaths, 260 million more child deaths, 300,000 fewer students completing primary education and 100 million fewer people having access to safe drinking water (World Bank and International Monetary Fund, 2010).

These varying scenarios highlight the sensitivity of poverty reduction and social development to the pace of economic recovery. If current trends continue, human development will still improve, although more slowly than if the crisis had not occurred. If the recovery stagnates, the social progress indicators would stall or deteriorate.

Social integration and crime

In late 2008, the Secretary-General of the United Nations warned that the crisis could lead to social unrest and political instability. Although systematic data are not available, there is growing evidence that the crisis is indeed having significant impacts on individuals, families and communities in terms of wellness, cohesion and conflict. In many countries, rates of mental illness, substance abuse and suicides have increased. Family cohesion is increasingly being jeopardized by divorce and domestic violence, as well as by the abandonment, neglect and abuse of children. Some communities are seeing increased outbreaks of conflicts and protests.

Protests, rallies and demonstrations have broken out across a number of regions in response to the adverse impacts of the crisis.[7] A 2010 study found that violent demonstrations, as well as perceptions of crime, had increased in 2009 in comparison with previous years (Institute for Economics and Peace, 2010). Although causality was not tested in that study, the observed increase is likely to have been due in part to the financial and economic crisis. Another study found that in Africa a negative economic growth shock of 5 per cent increased the likelihood of civil conflict by 50 per cent (Miguel, Satyanath and Sergenti, 2003). The Political Instability Task Force at George Mason University has also linked GDP declines to 46 out of 50 cases of instability since 1980. Economic distress is seen as an almost necessary, although not sufficient, condition for instability (*Economist* Intelligence Unit, 2009).

Rising unemployment and falling wages can also exacerbate existing tensions among social groups. Anti-immigrant sentiment is rising and has turned violent in some countries, for example, the Russian Federation and South Africa. Calls for restrictions on labour immigration have been proposed in some countries in the European Union, and polls have found broad support for programmes that would return migrant workers to their countries of origin (Awad, 2009). Youth

7 Incidents of civil unrest have been linked to the crisis in the following countries and areas: Austria, Bangladesh, Bulgaria, Burkina Faso, Cameroon, Chile, China, Côte d'Ivoire, Egypt, Ethiopia, France, Germany, Greece, Guinea, Haiti, India, Indonesia, Ireland, Italy, Latvia, Lithuania, Madagascar, Mauritania, Mexico, Morocco, Mozambique, Nepal, Pakistan, Peru, Philippines, Portugal, Puerto Rico, Romania, Russian Federation, Senegal, Somalia, Spain, Sudan, Turkey, United Kingdom of Great Britain and Northern Ireland, Uzbekistan, Yemen and Zimbabwe.

unemployment also increases the potential for social unrest, violence and crime (International Labour Organization, 2010e).

The crisis has triggered family conflict and disunity. Economic stress is a major source of family tension and a leading cause of family breakups. A study of housing prices and marital dissolution in the United Kingdom in the period 1991-2004 found that a 10 per cent fall in housing prices was associated with an additional 5 per cent of couples breaking up (Rainer and Smith, 2009). Labour migration in response to the crisis is further breaking up more and more families, and there have been reported increases in the incidence of child abandonment, abuse and trafficking. In Thailand and Viet Nam, some mothers working long hours have had to leave children unattended. In Bangladesh, Indonesia, Jamaica, Kenya and Zambia, there have been reports of child abandonment; even the trafficking of boys from Nairobi has been attributed to deteriorating economic conditions (Hossain, 2009). Lithuania and Scotland in the United Kingdom have also seen increased referrals to child protection services (Eurochild, 2009).

Although data are scarce, some countries have seen an increase in cases of domestic violence linked to the crisis. For instance, a survey of 630 domestic violence shelters in the United States reported a 75 per cent increase in the number of requests for services since the onset of the crisis (Mary Kay, 2009). Half of the shelters surveyed cited job losses as a major contributor to the increase, and three out of four cited financial concerns as an important factor. The survey also found that abuse had become more severe and that, despite this, women were staying longer in abusive relationships. For some women, this choice may be due to a lack of resources to live independently. Unfortunately, declines in funding are also forcing some shelters to provide fewer services despite the rising demand. The National Domestic Violence Hotline in the United States registered an almost 20 per cent increase in calls for help in the 12-month period beginning in September 2008. That organization also found that the daily unmet need for services, due to the lack of resources, had increased from 8,927 cases to 9,280 between September 2008 and September 2009. Increased rates of domestic violence linked to the crisis have also been reported in Curaçao (one of the five islands of the Netherland Antilles in the Caribbean), India, the Lao People's Democratic Republic and the United Kingdom, among others.

Joblessness and increasing financial tension can contribute to mental illness, substance abuse and increased suicide rates. Surveys indicate a growing prevalence of depression in India, Indonesia, Pakistan, South Africa and Thailand since the onset of the crisis. Use of mental health services offered by clinics and hotlines has increased in China, India, Japan, Latvia and countries throughout Europe.

The World Health Organization has warned that the crisis is likely to cause an increase in suicides. The evidence from the period during the 1997-1998 Asian financial crisis shows that there is reason for concern: for example, the suicide rate

in the Republic of Korea nearly doubled after the onset of that crisis. A recent study of 26 countries in the European Union found that for every one per cent increase in unemployment, the suicide rate for people under 65 years of age went up by 0.8 per cent (Lundin and Hemmingsson, 2009). Increased suicide rates since the onset of the recent crisis have been reported in Egypt, Japan, Latvia, South Africa and the United States.

Concluding remarks: full impact unfolding

The impact of the recent crisis on poverty in developing countries has thus far been less severe than some had earlier feared, but no less severe than that of previous crises. While the impacts of the crisis undoubtedly have been substantial and persistent, to a large extent, a more dire poverty outcome was avoided because many countries had responded to the crisis with timely stimulus packages and social protection measures. The range of national and international responses to the crisis is covered in Chapters V and VI. However, the full impact of the crisis remains to be seen and will depend on the speed, strength and form of the recovery.

Many countries had implemented safety net programmes as policy responses to previous crises and these helped to partly insulate them from the worst impacts of the recent crisis. For example, conditional cash transfers in Mexico through the *Oportunidades* (opportunities) programme largely prevented a greater increase in poverty which might have occurred if the full impact of the crisis had been felt in that country (World Bank, 2010a). Increased social spending and improved social protection systems have cushioned the impact in many countries. Such positive experiences should provide sound guidance to policymakers on approaches to enable greater preparedness for future economic shocks.

Obviously, the pace of recovery matters with regard to the long-term impact of the crisis on poverty. Based on initial indications, a slower recovery would leave twice as many additional people in poverty in 2020 than would a rapid recovery. However, at the G20 meeting in Toronto, Canada, in June 2010, leaders shifted away from advocating stimulus spending to emphasize debt reduction and fiscal consolidation. Many fear that it is too early to abandon the stimulus packages that have spearheaded the recovery; measures have not been taken to address unemployment and a second-dip may still be forthcoming as there are already signs that the recovery is slowing. It is thus difficult, at the current juncture, to be confident about projections based on early signs of recovery when the risk of backsliding remains high. There is growing concern that, while banks and financial institutions are recovering and productivity is growing, the welfare of the people is lagging behind because unemployment remains high and is expected to remain so for some time to come.

Chapter IV

The global food crises

When the global financial and economic crisis hit, a large number of developing countries were still reeling from the economic and social impacts of the earlier global food crisis. In 2008, the cereal price index reached a peak 2.8 times higher than in 2000; as of July 2010, it remained 1.9 times higher than in 2000 (Food and Agriculture Organization of the United Nations, 2010a; 2010b).

Prior to the global financial crisis, concerns about the spikes in food and energy prices were at the centre of public and media attention. Global leaders and policymakers were concerned about the potential welfare impacts of the sharp increases in the prices of food commodities, such as rice, corn (maize), wheat and soybeans, as well as global food security. There was concern about how higher food prices were adversely affecting low-income consumers and efforts to reduce poverty, as well as the political and social stability of poor countries and food-importing countries. These concerns have subsequently heightened with the social tensions, unrest and food riots that have broken out in several countries.

However, attention to the fragile and unsustainable global food security situation was pushed off the centre stage of international concerns and replaced by the global financial and economic crisis and the later push towards budget cuts and fiscal austerity in most major industrialized countries. Unfortunately, the food crisis is still far from over as prices have been rising once again since 2009 (Johnston and Bargawi, 2010). The poor remain especially vulnerable, as the Food and Agriculture Organization (FAO) has warned repeatedly. The FAO's world food-price index had risen to a record high at the time of writing in early 2011, topping the previous all-time high set in June 2008. As a result, rising food prices have driven an estimated 44 million people into poverty (World Bank, 2011). Furthermore, the food riots in Mozambique in September 2010 and recent protests in several North African countries seem to reflect the continued impacts of high food prices on the poor and other vulnerable groups.

In this chapter, the global food crisis is revisited, and four basic issues are addressed. First, recent trends in food prices are reviewed, with particular focus given to the peaks in early 2008. Second, the social impacts on the poor and other vulnerable groups of the sudden spikes in food prices are examined. Third, an in-depth look focuses on the key underlying causes of the global crisis in food prices. Lastly, the policy options facing national Governments and their international development partners are discussed. The effectiveness of the policy responses at these levels has short- and long-term implications for food (and nutrition) security as well as for poverty eradication in poor countries.

Food prices remain volatile and high

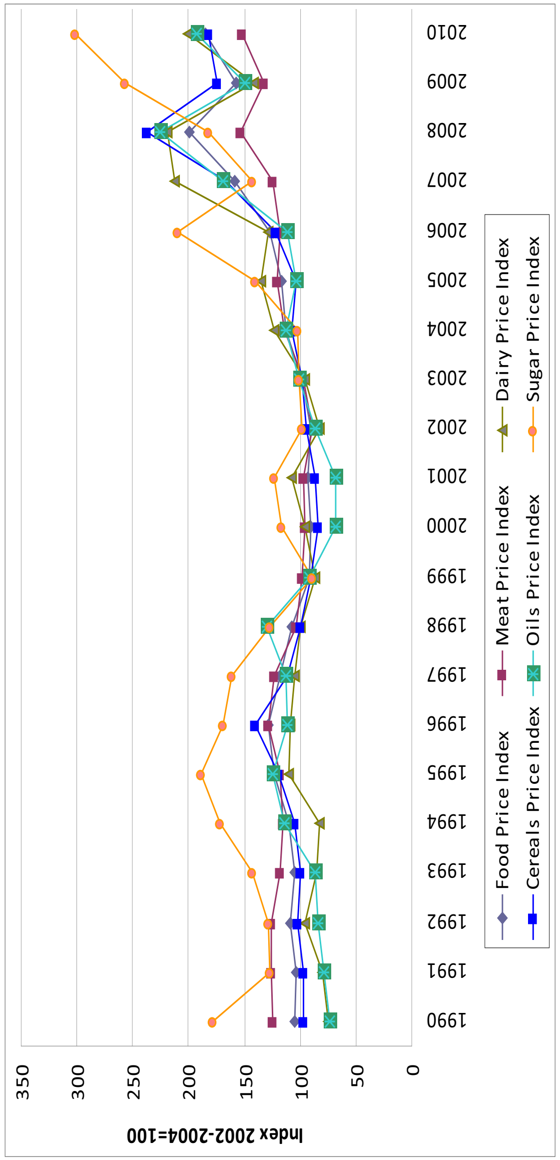
Beginning in 2006, international prices for basic agricultural commodities rose to levels not experienced in nearly three decades (see figure IV.1). Corn prices began rising in the third quarter of 2006 and soared by some 70 per cent within months. Wheat and soybean prices also rose to record levels during this time. Cooking oil—an essential foodstuff in many poor countries—is mainly produced from soybeans and other plant sources; as a result the price of this item shot upward as well. Rice prices had also more than doubled in the year ending in the first quarter of 2008 (Bradsher, 2008). In many countries, the prices of most food staples remain volatile and are still at least 50 per cent above the average for the period 2000-2004. For example, in Lahore, Pakistan, wheat prices rose by 24 per cent in the year prior to February 2010 while the maize price in Zimbabwe's capital, Harare, went up by 36 per cent between October 2009 and February 2010. The spike was even worse in Burundi; in Bujumbura, the price of beans went up by 58 per cent during the same period (see table IV.1). The food crisis has not abated as most food prices are rising again and have exceeded the peaks recorded in 2008. The Food and Agriculture Organization food-price index rose to a record high in February 2011, topping the previous all-time high set in June 2008, following unexpected shortfalls in major cereals owing to bad weather in 2010.

Social impacts of the food crisis

As the prices of food and energy soared to new heights between 2007 and 2008, many countries were confronted with major social and political crises. Food riots and protests threatened Governments as well as social stability in Africa, Asia, the Middle East and Latin America and the Caribbean. Massive public protests in response to higher food prices erupted in very diverse countries, such as Burkina Faso, Cameroon, Egypt, Guinea, Haiti, Indonesia, Mauritania, Mexico, Morocco, Nepal, Peru, Senegal, Uzbekistan and Yemen (Baker, 2008; Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development and World Food Programme, 2008). The number of people in need of emergency food aid in low-income food-deficit countries also increased. According to the Famine Early Warning Systems Network of the United States Agency for International Development, an estimated 2.7 million people in Niger were likely to be highly or extremely food insecure in 2010 and an additional 5.1 million people were at risk of moderate food insecurity. Altogether about 60 per cent of the population would face food shortages. In the Horn of Africa, the serious food insecurity situation is expected to continue in 2011 in the face of persisting rainfall deficits, high prices for staple foods at local markets, poor livestock production and lower agricultural wages.

However, the rapid and simultaneous rise in prices globally for all basic

Figure IV.1
Annual FAO Food Price Indices



Source: Food and Agriculture Organization of the United Nations (2011).

food crops—corn, wheat, soybeans and rice—long with other food items such as cooking oil has had a devastating effect on poor people all over the world (ACF International / Action Against Hunger, 2009; Food and Agriculture Organization of the United Nations, 2009b; Swan, Hadley and Cichon, 2010). Almost everybody's standard of living has been reduced as people in the middle class become increasingly careful about their food purchases, the near poor descend into poverty and those already poor suffer even greater deprivations than before.

With the increase in hunger and malnutrition, the risk of premature deaths is likely to increase among the young, old, infirm and other vulnerable people and this will continue unless conditions improve. The survivors are harmed in other ways as well. The impact of the food crisis is likely to be much more severe among women and children. Because of gender discrimination and various cultural practices that influence intrahousehold resource allocation, these groups tend to be more vulnerable to chronic and transitory food insecurity. Furthermore, the crisis may undermine efforts to reduce maternal and infant deaths as the food and nutrition deficits facing pregnant and lactating women worsen in already adversely affected regions. Lack of social protection for female workers in the informal sector compounds their vulnerability to such external shocks.

In the majority of countries, the recent increases in food prices have significantly raised the number of people suffering from hunger and living in poverty both in urban and rural areas irrespective of the poverty line used (de Hoyos and Medvedev, 2009; Dessus, Herrera and Hoyos, 2008; Ivanic and Martin, 2008). The World Bank estimates that the food crisis pushed 130 million to 155 million people into poverty in 2008, while the poverty challenges posed by higher food prices have returned (World Bank, 2010c). Food prices in low-income countries continue to rise; by the end of May 2009, food prices in these countries rose 8 per cent faster than non-food prices, when compared with January 2003 (see figure IV.1). Thus, the World Bank (2010d, p. 36) concluded that the poor in low-income countries "may not be benefiting from lower international food prices … and … a significant portion of the 130 million [that were] pushed into extreme poverty during the food-price spike … may not have exited poverty as might have been expected given the fall in international food prices".

A study of nine low-income countries also revealed that in the short term higher food prices increased national poverty rates by 4.5 percentage points even though these effects differed substantially across countries and by commodity (Ivanic and Martin, 2008). The Economic Commission for Latin America and the Caribbean estimated that the food price crisis added 10 million people each to the ranks of the extremely poor and the moderately poor. Another study of 19 Latin American countries found that poverty had increased by 4.3 percentage points, or by 21 million additional poor people (Robles and others, 2008).

In Asia, a 20 per cent increase in food prices probably increased the number of

Table IV.1

Countries experiencing largest increases in the prices of the main food staples

Price increase, annual average up to year ending February 2010			Price increase, June 2010–December 2010		
Location	Commodity	Percentage increase	Location	Commodity	Percentage increase
Sudan (Khartoum)	Sorghum	39.8	Brazil (São Paulo)	Maize	56.0
Pakistan (Lahore)	Wheat	23.9	Kyrgyzstan (Bishkek)	Wheat	54.0
Tanzania (Dar es Salaam)	Maize	21.2	Burundi (Bujumbura)	Beans	48.0
Chad (Abeche)	Sorghum	20.8	Vietnam (Dong Thap)	Rice	46.0
Mali (Bamako)	Millet	17.0	Bangladesh	Wheat	45.0
Kenya (Nairobi)	Maize	16.3	Cameroon (Yaounde)	Beans	43.0
India (Mumbai)	Wheat	13.6	Burundi (Bujumbura)	Rice	41.0

Source: World Bank (2011)

poor by 5.7 million and 14.7 million in the Philippines and Pakistan, respectively (Asian Development Bank, 2008). Revenga, Wodon and Zaman (2008) found that in Africa the share of the population in poverty could have jumped by as much as 4.4 percentage points with an increase in the price of cereals by 50 per cent. This negative welfare effect, caused by a decline in purchasing power, particularly among urban consumers, was further exacerbated by reductions in average household incomes as a result of the global financial and economic crisis. Tiwari and Zaman (2010) also estimated that the slowdown in the global economy may have led to an increase of 41.3 million in the number of undernourished people in 2009, that is 4.4 per cent more people than would have been the case if the global economic crisis had not occurred. This is in addition to the estimated 923 million undernourished people in 2007 as estimated by FAO.

Higher food prices have forced households to spend more on food. In Mexico, the food price shock caused the average poor household to effectively lose 18 per cent of its food budget (Wood, Nelson and Nogueira, 2009). The result was that households with limited or no substitution options have been pushed below their normal caloric or micronutrient intake, a situation that threatens their long-term health and ability to escape poverty. A survey of food consumption

patterns in the Central African Republic, Ethiopia, Liberia and Sierra Leone found substantial evidence of restricted dietary diversity and reductions, of both the size of food portions and the frequency of meals, among poor households which are increasing the risk of micronutrient deficiencies among children as well as adults (Swan, Hadley and Cichon, 2010). Even where households have been able to maintain their levels of daily caloric intake, by substituting more expensive foods with cheaper alternatives, this practice is causing micronutrient deficiencies where the substitutes are less nutritious.

The global food price crisis has also induced reduced household spending on health care and children's education. In the capital and largest city in Sierra Leone, Freetown, children have been withdrawn from school and forced into the labour market to contribute to family welfare (Swan, Hadley and Cichon, 2010). Similar coping mechanisms have been adopted in other parts of the developing world as well.

Although much global attention has been focused on the impact of the food and the energy crises on developing countries, these impacts also hit more developed countries (van der Ploeg, 2010). While starvation seldom occurs in industrialized economies, declines in food expenditures by middle- and low-income households have forced families to eat less frequently and to consume less diverse and nutrient-rich foods (Nord, 2009). Several developed countries saw spikes in chronic mild undernutrition among the poor and other social groups, primarily due to job losses due to the global financial and economic crisis. People who are out of work, have exhausted their savings, or are nearing the end of their unemployment benefits increasingly find themselves having to rely on local food banks and other not-for-profit charitable organizations. For many of the "new poor", this is the first time they have had to rely on public assistance programmes for food and other benefits. In the United States, the number of people living in food-insecure households jumped from 36.2 million in 2007 to 49.1 million in 2008 (Nord, 2009).

Underlying causes of the global food price spike

The food crisis is a result of a complex interplay of several factors. Some of these factors have recently emerged, such as excessive speculation in agricultural commodity futures markets, drought-induced crop failures in major grain- and cereal-producing regions and the surge in biofuel production in Europe and the United States. Other causes are longer-term, including reduced national and international investments in developing-country agriculture, distortions in the international trading system and changing consumption patterns. All these factors have adversely affected agricultural production. However, some factors played much larger roles than others in the 2007-2008 global food price crisis as well as the more recent one.

Speculation in commodity futures

One key factor that distinguishes the spikes in food prices during the period 2007-2008 from that of previous price increases is the role played by large banks, hedge funds and sovereign wealth funds in commodity futures markets (Domanski and Heath, 2007; Ghosh, 2010; Mittal, 2009). Investors have moved into futures markets following the deregulation of the United States commodities futures markets in the 1990s (Chilton, 2008; Organization for Economic Cooperation and Development, 2008).

The UN Special Rapporteur on Food, Olivier De Schutter, has linked the increases in price and the volatility of food commodity prices to the emergence of a "speculative bubble" in the early years of the twenty-first century. He notes: "Beginning in 2001, food commodities derivatives markets and commodities indexes began to see an influx of non-traditional investors, such as pension funds, hedge funds, sovereign wealth funds, and large banks … [T]his was simply because other markets dried up one by one: the dotcoms vanished at the end of 2001, the stock market soon after and the US housing market in August 2007. As each bubble burst, these large institutional investors moved into other markets, each traditionally considered more stable than the last. Strong similarities can be seen between the price behaviour of food commodities and other refuge values, such as gold" (De Schutter, 2010).

As the subprime mortgage crisis in the United States deepened and spread to international finance from mid-2007, investors moved from uncertain financial markets to mineral and food markets, seeking security in real assets, while contributing to and taking advantage of the "commodities super cycle". Such new investors purchased large or many futures and options contracts, transforming the role of commodity futures markets. By July 2008, $317 billion was invested in commodities index funds, led by Goldman Sachs and American Insurance Group (AIG). These actions pushed up agricultural and mineral (including energy) commodities. Drawing on Lehman Brothers research, US Congressman Bart Stupak testified to the House Agriculture Committee that "since 2003, commodity index speculation has increased 1,900 per cent from an estimated $13 billion to $260 billion" in March 2008. Much higher futures prices for major crops, such as wheat, rice, corn and soybeans, in turn, raised current food prices, which in turn raised futures and options prices, thus contributing to a food price bubble (Stupak, 2008). Commodity Futures Trading Commission Chairman, Gary Gensler, told the US Senate in 2009, "I believe that increased speculation in energy and agricultural products has hurt farmers and consumers".[1]

1 Food and Water Watch (2009). See also, Baffes and Haniotis, 2010; Robles, Torero and Braun, 2009; United Nations Conference on Trade and Development, 2009.

Higher energy prices and demand for biofuels

The availability of cheap oil has been a major factor in the rise of agricultural productivity in the last several decades. However, the era of cheap oil came to an abrupt end in the recent past as oil prices trebled between January 2007 and July 2008, exceeding $147 a barrel. Consequently, the increase in oil prices also affected the production, processing and distribution of agricultural commodities, and hence food prices. The *OECD-FAO Agricultural Outlook 2009-2018* report warned that episodes of price increases and extreme price volatility, similar to 2008, cannot be ruled out in the coming years and the prices of some commodities as well as biofuels have become increasingly linked to oil and energy costs (Organization for Economic Cooperation and Development and Food and Agriculture Organization of the United Nations, 2009).

As the search for cheaper energy sources continues, the demand for biofuels has increased. A major source of the growth in demand for food crops is for the production of bioethanol and biodiesel. Developed countries annually provide $13 billion in subsidies and protection to encourage biofuels production, which have diverted 120 million tons of cereals away from human consumption for conversion to fuel. In the United States alone, 119 million out of 416 million tons of grain produced in 2009 went to ethanol distilleries. The grain would have been enough to feed 350 million people for a year! An unpublished World Bank report found that biofuels forced global food prices up by 75 per cent—far more than previously estimated (Chakrabortty, 2008).

Trade liberalization

The conventional wisdom holds that a free-market economy, with minimal government interference, would function more efficiently and thus become more productive than a command or planned economy.[2] However, a 2008 report found that countries in Latin America which had rapidly liberalized agricultural trade in pursuit of the promised gains from trade liberalization—including expanded access to foreign markets and technology, and lower food prices for consumers gained much less than expected: job creation has been weak, environmental costs have often been high, and in some cases, governments have lost the policy space necessary to ensure long-term development. The report also noted the tendency in the past quarter century to overestimate the benefits to the poor of cheap imports and to underestimate the development and poverty alleviation benefits

2 A review commissioned by the World Bank acknowledged: "In most reforming countries, the private sector did not step in to fill the vacuum when the public sector withdrew" (Dugger, 2007). According to Jeffrey Sachs, "The whole thing was based on the idea that if you take away the government for the poorest of the poor that somehow these markets will solve the problems….But markets can't step in and won't step in when people have nothing. And if you take away help, you leave them to die".

of a strong domestic food agricultural sector (Pérez, Schlesinger and Wise, 2008).

In following the advice of the international financial institutions to liberalize, the Governments of many developing countries reduced their subsidies for small-scale farmers and consumers who then faced greater economic hardships. Since the 1980s, Governments have been pressed to promote exports in order to earn foreign exchange and import food. Although enhanced agricultural production is desirable, much of the recent emphasis has been on the production of export crops. While the revenue earned from such exports may improve a country's balance of payments position, export-oriented agriculture does not ensure food security. Export-oriented agriculture can induce investment in the production of higher-priced crops for export, rather than often lower-priced food crops needed to meet the needs of the domestic population.

Instead of developing their own food-oriented agricultural base, many poor countries turned to the global market to buy cheap rice and wheat. Some countries previously self-sufficient in food, now import large quantities of food. Net food imports are currently the norm for most developing countries, including those in sub-Saharan Africa. Following the recent hikes in food prices, some countries have lowered their import tariffs to reduce the impact of the much higher prices of imported food, but such stop-gap efforts have had only marginal and temporary impacts at best. Other countries, mostly net food importers, have restricted the export of food in order to insulate their populations from rising international food prices (Alihaya, 2008). Such export restrictions have undoubtedly further limited supplies in the international food trade, thus contributing to price increases, especially in the relatively small international market for rice.

Fewer and fewer transnational agri-businesses now dominate marketing, production and agricultural inputs. As reported in *The Independent* in May 2008, Monsanto's net income more than doubled from $543 million to $1.12 billion in the three months up to the end of February 2008, compared to the same period in 2007, as its profits increased from $1.44bn to $2.22bn. Over the same three-month period, Cargill's net earnings soared by 86 per cent from $553m to $1.030bn. Similarly, Archer Daniels Midland, one of the world's largest processors of soy, corn and wheat increased its net earnings by 42 per cent from $363m to $517m. The operating profit of its grains merchandising and handling operations jumped 16-fold from $21m to $341m. During the same period, the Mosaic Company, one of the world's largest fertilizer companies, saw its income rise more than 12-fold, from $42.2m to $520.8m, as the prices of some kinds of fertilizers more than tripled during 2007-2008 (Lean, 2008). This situation came largely at the expense of small farmers and consumers, particularly the poor, forced to buy from or sell to agri-business giants.

Long-term problems

The major increases in crop yields and food production associated with the Green Revolution from the 1960s to the 1980s, which was achieved with considerable government and international philanthropic not-for-profit support, gave way to new policy priorities in the 1980s.

The result was that growth in the food supply slowed,[3] while demand continued to grow and not just as a result of an expanding population. From 1970 to 1990, global food supply grew faster than the population. Between 1960 and 1970, grain yields grew globally by 2.6 per cent per year on average, but rose by less than half that rate (1.2 per cent) yearly from 1990 to 2007 (Stokes, 2008). Thus, after 1990, the trends were reversed when the rate of growth of the food supply fell below that of the population. In recent years, the world has been consuming more grain than it has been producing, thus having to cut into reserves which began driving up prices. From 2007 until early 2008, as grain stocks declined further and investors abandoned their previously preferred financial assets in favour of commodity futures and options, international grain prices rose sharply.

Having neglected food security and the productive sectors of their economies for several decades, the Governments of many developing countries also lacked the fiscal capacity to increase public spending to increase food production and agricultural productivity. The problem has been exacerbated by the significant drop in official development assistance earmarked for agricultural development in developing countries. Aid for agriculture has fallen in real terms by more than half in the quarter century after 1980 (Bradsher and Martin, 2008; Stokes, 2008).

Other longer-term trends

Other medium- and long-term factors have also contributed to the current food crisis. The growing demand for meat among those households newly able to afford it has increased the use of food crops to feed livestock. Total meat supply in the world has quadrupled from 71 million tons in 1961 to 284 million tons in 2007 (Magdoff, 2008). Past overfishing is also reducing the supply of fish, an important source of animal protein for many countries, as higher prices for fish further burden the poor. The problem of overfishing is acute for both marine and freshwater fishing, and the growth of fish-farming has proven to be problematic for both ecological and nutritional reasons. There has been relatively limited progress towards resolving the very complex issues involved.

3 Rice yields per acre in Asia have stopped rising; there has been no yield increase for at least a decade, and increases are not expected in the near future. For more details, see International Rice Research Institute (2008).

Weather has also adversely affected agriculture in many parts of the world. Climate change, associated with accelerated greenhouse gas emissions, is believed to have exacerbated water-supply problems, thus speeding up desertification and water stress, and worsening the unpredictability and severity of weather phenomena, such as the decade-long drought in Australia.

Forests have long been an important source of food (for example, wild fruit, ferns, tubers, fauna) for many rural dwellers, especially those living close to the subsistence level (Nasi and others, 2008). Continuing deforestation for logging, cultivation of agricultural land and other purposes has also reduced its potential as a natural carbon sink—thus accelerating climate change—and imperiled biodiversity.

Another important contributory factor to the food crisis is the loss of farmland to other uses. Growing population pressure, urbanization and other non-agricultural uses of land, as well as the attraction of non-food agricultural production, such as horticultural products, have reduced the farmland available for the production of food, while agricultural land is increasingly being used to produce commodities other than food, biofuels being an example (Magdoff, 2008).

Soil erosion is a slow and insidious process, with ominous implications for agricultural productivity in the long term. Most problematically, the quality of the topsoil, crucial for agriculture, has been declining over the years for a variety of reasons related to agricultural and land-use practices (Harvey, 2008), such as monocropping and the misuse of fertilizers resulting in pollution. Water supplies, so essential for agricultural irrigation, are also under threat as underground aquifers and other sources of water supply are being depleted or compromised by such factors.

Finally, fewer and fewer transnational agribusinesses now dominate marketing, production, agricultural inputs (Jargon, 2008) and even trading in agricultural futures and options. This situation comes largely at the expense of small farmers and consumers, particularly the poor, who are forced to trade in a less competitive environment in conditions of asymmetric power (Stokes, 2008).

U-turn in Washington?

Over the last three decades, food security and agriculture have been weakened by reduced funding for investments in agricultural infrastructure, support institutions and research, as well as by the effects of trade liberalization. The *World Development Report 2008* comprehensively reviewed many aspects of agricultural production and distribution, and even considered issues previously unaddressed or poorly addressed by the World Bank, such as peasant organizing, political voice, unequal market power, ecological concerns and gender equity (World Bank, 2008).

The same Report acknowledges that trade liberalization generates winners as well as losers and recognizes that “the overall effect of trade policy reform on farm incomes of food staple producers in the poorer developing countries is likely to be small” (World Bank, 2008, p. 112). Further, it concedes that transnational corporations dominate a number of agricultural markets and that “growing agribusiness concentration may reduce efficiency and poverty reduction impacts” (p. 135). It acknowledges asymmetric market power and the differential impacts of policies on different segments and strata of agrarian populations. “Concentration widens the spread between world and domestic prices in commodity markets for wheat, rice and sugar, which more than doubled from 1974 to 1994. A major reason for the wider spreads is the market power of international trading companies” (p. 136).

Agricultural financing has begun to recover recently at the World Bank; the Bank has already agreed to double its lending for such programmes in Africa and, with the ongoing food crises, such institutions will be expected to commit more to reviving food agriculture.

The 2008 Food Summit declaration[4] criticized the failure of Governments in rich countries to provide promised aid following the 1996 World Food Summit (Dano, 2008). Aid for agriculture had fallen in real terms by more than half, from $8 billion in 1980 to $3.4 billion in 2005. Meanwhile, in addition to protective tariffs, Governments had provided $11-12 billion as subsidies for biofuels in 2006, diverting 100 million tons of cereal from human consumption to the production of biofuels. According to the FAO, countries belonging to the OECD provided subsidies for agriculture in 2006 worth $372 billion; in one country alone, food worth $100 billion was being wasted every year.

The prevailing strategy for agriculture gradually became subsumed within a broader rural focus, which diminished agriculture’s importance. Because much of the food agriculture in developing countries is deemed to have limited export potential compared with other cash crops, food crops in general have been neglected. The original focus of the Green Revolution on rice, wheat and corn ignored most African food crops, especially those suited to water-stressed conditions, which are increasingly prevalent in much of the continent. Commitment to food security was substituted by the notion of “global food security”, with developing countries encouraged to maximize export earnings to pay for food imports and other needs in a new, ostensibly welfare-maximizing, international division of labour. The technical skills needed to support agricultural development adequately have also declined over time.

4 The High-Level Conference on “World Food Security: The Challenges of Climate Change and Bioenergy” was held in Rome from 3 to 5 June 2008. It was convened by the FAO, together with the World Food Programme (WFP), the International Fund for Agricultural Development (IFAD) and Bioversity International on behalf of the Consultative Group on International Agricultural Research (CGIAR) to discuss these challenges and devise ways to safeguard the world’s most vulnerable populations.

World Bank lending has been spread over various agricultural activities, such as research, extension, credit, seeds and rural policy reforms; however, there has been little recognition of the synergies among them needed to effectively contribute to agricultural development. Moreover, complementary and critical inputs, such as fertilizers and water, have been inadequate, leading to mixed results. The World Bank's Independent Evaluation Group assessed the development effectiveness of Bank assistance in addressing constraints to agricultural development in Africa over the period 1991-2006. The study's central finding is that agriculture was being neglected by Governments and the donor community, including the World Bank. Recent developments, however, have signaled a shift in approach to agricultural development. Besides describing shortcomings, the 2008 *World Development Report*, covered a number of issues not addressed in many years.

Concluding remarks: urgent action needed

To minimize the social and economic impacts of international food price volatility on the poor and other vulnerable groups, food needs to be available where it is needed most. While the emergence of global food supply chains has weakened the commitment to national or local food security, poor countries need to focus on producing their own food and not become overly dependent on international markets. Over the past few decades, many poor food-importing countries were lulled into believing that their food security concerns could be easily solved by relying on international markets. However, the 2007-2008 food price spikes have undermined this faith and revived interest in national food security.

Concerted efforts have to be made to ensure that food security is a priority in developing countries, particularly in those poor countries susceptible to chronic food shortages. This will require a mix of agricultural and rural development policies, such as increasing investments in agricultural research and development, irrigation, roads and markets, as well as some inward-looking protectionist policies. The supportive role of the State in agriculture—rolled back by liberalization reforms in the economic and food sectors over the past three decades—should be revived while avoiding problems of the past. The fiscal space of poor countries will also need to be enhanced if these countries are to rebuild and scale up provision of rural financial and extension services and farm input subsidies. Such State intervention in agriculture will likely generate other positive externalities, such as minimizing excessive dependence on food imports and protecting rural jobs, the livelihoods of small farmers as well as the environment. However, issues of inefficiency and poor governance that have plagued State agriculture sector interventions in the past will have to be addressed, particularly those involving grain marketing boards and other related parastatals.

While it is the responsibility of each State to ensure the availability of food and access to food by all its people at all times, most poor countries cannot

fulfil this objective on their own. Therefore, the international community should assist poor countries in developing their agricultural sectors to prevent food and nutrition scarcity in an age of plenty. It is important that global food security remain an international priority in terms of global policy attention and resource allocation. Therefore, the billions of dollars pledged by international donors to improve agricultural production in developing countries need to be actually delivered.

Solutions to address the structural causes and constraints behind poor agricultural and rural development efforts in developing countries have been suggested in the past. However, implementing these solutions has fallen short due to the lack of resources (both financial and human) and political will. Hence, the plethora of existing solutions has not resulted in major reductions in rural poverty and hunger in the vast majority of developing countries, with the exception of China. In fact, food production per capita has been declining in sub-Saharan Africa and other parts of the developing world.

Besides increasing development assistance for agriculture, developed countries can also take a number of steps that could help to improve food security in poor countries. These include curtailing—not subsidizing and encouraging—biofuel policies that distort the global food supply as well as undermine environmental sustainability. A review of agricultural policies and subsidies that have distorted incentives and undermined the ability of poor countries to develop their agricultural sectors is also needed. Reducing or eliminating such agricultural and energy policies will, in the long run, help the poorest countries to develop their agricultural sectors.

Developing countries need to address long-run market weaknesses which affect smallholders, banks, agrodealers and buyers. For instance, for buyers and agricultural dealers to get uninterrupted supplies of agro-products that can make them competitive in regional and international markets, it is important that producers be able to boost productivity by accessing credit, high-yielding and disease-resistant seeds, suitable fertilizers and better farming techniques. For banks to make loans easily accessible and affordable to rural farmers, transaction costs and risks associated with lending money should also be lower. Training on sustainable land and water management should also be made available to farmers, while efforts to improve property rights and land tenure should target women, who produce a large share of the food in most poor countries.

The implications of support and subsidies for food farmers—for food security or social policy reasons—need to be addressed in a way that advances and does not undermine social equity and food security for all.

Chapter V

Crises, fiscal space and national response[1]

As noted in Chapter I, transmission of the effects of the recent financial and economic crisis to developing countries occurred through a number of different channels depending on each country's openness to trade and financial accounts. Given the global nature of the current crisis, developing countries, in general, have found it more difficult this time around to increase their exports in order to stimulate economic recovery in the same way that some countries did following previous crises. Therefore, the space for counter-cyclical domestic demand policies and their effectiveness have been crucial in determining the ability of countries to mitigate the effects of recent strong external shocks (Ocampo and others, 2010).

Some developing countries were able to launch expansionary domestic demand policies during the current crisis because they had strengthened their external balance sheets prior to its onset (see box V.1).

Despite improvements in the external balance sheets of some developing countries during the years preceding the crisis, a considerable number of these countries remained vulnerable to external shocks. For example, of a sample of 100 developing countries, 39 were highly vulnerable (or exposed) when the crisis occurred because of their high levels of poverty and decelerating economic growth rates (World Bank, 2009). Of the highly vulnerable countries, about 75 per cent had either low institutional capacity or low fiscal capacity. In a sample of 70 low-income countries, 26 were particularly vulnerable to the unfolding crisis, including low-income countries heavily dependent on commodity exports, such as oil exporters, as well as fragile States with little room to manoeuvre (International Monetary Fund, 2009).

Therefore, many poorer developing countries were not in a position to initiate counter-cyclical fiscal policies. To make the situation worse, the crisis itself created huge fiscal burdens for low-income countries. An Oxfam study found that, in 56 low-income countries, budget revenues fell by $53 billion in 2009—nearly 10 per cent of the level of their pre-crisis revenues—and by $12 billion in 2010 (Kyrili and Martin, 2010). Revenues fell in 60 per cent of low-income countries in 2009. By the end of 2010, revenues will probably be found to have remained below their 2008 levels in 46 per cent of these countries. This situation has severely affected the ability of these countries to use spending to overcome the effects of the crisis and to achieve the Millennium Development Goals. The same study observed that

1 This chapter draws heavily on a paper commissioned for this Report: (Chandrasekhar and Ghosh, 2010).

"even if the rich world recovers, the crisis will still be wreaking havoc in the poorer countries, due to the time lag in transmission" (Kyrili and Martin, 2010, p. 3).

Nonetheless, two thirds of the surveyed countries initially responded to the crisis by initiating fiscal stimulus packages. This was in marked contrast to the more limited response during the 1997-1998 Asian financial crisis. However, the increased expenditure in the face of falling revenues has significantly increased the budget deficits of the countries surveyed, and may have led to a reduction of such stimulus spending programmes, with only one quarter of these countries still implementing them in 2010. The study also found that countries with IMF programmes had implemented more stimulus spending than others in 2009, but were expected to cut back more sharply on such spending in 2010.

This chapter focuses on the impacts of the crisis on fiscal space and government social spending. It also examines the design and implementation of national rescue packages, concentrating in particular on the composition of stimulus packages in terms of social protection and employment measures.

Impact on fiscal space

The crisis had a marked contractionary impact on government revenues. For many developing countries, this decline in government revenues simply reflected the decline in economic activity that affected both indirect and direct taxes. In 2009, government revenues fell in all regions except Latin America and the

Box V.1

Pre-crisis macroeconomic conditions in developing countries

During the economic boom period of 2003-2007, many developing countries made major improvements in their fiscal and external balances and overall financial health. The external balance sheets of many developing countries had indeed improved on a fairly broad basis. Although an increasing number of countries still had large current account deficits during this period, they were making major improvements in their debt ratios, while accumulating significant foreign exchange reserves.

In regional terms, the Middle East and Asia recorded the best performance in three dimensions: current account deficits, external debt and foreign reserves. The Commonwealth of Independent States performed well in terms of current account deficits and foreign reserves, but not debt. Africa had large current account deficits, but made significant improvements in the other two dimensions. As a region, Latin America and the Caribbean stood out for its historically unprecedented avoidance of current account deficits, as well as the significant improvements it made in debt ratios. The performance of Central and Eastern Europe was the weakest by far, being characterized by large current account deficits, with limited or no improvements in debt and foreign exchange reserve positions.

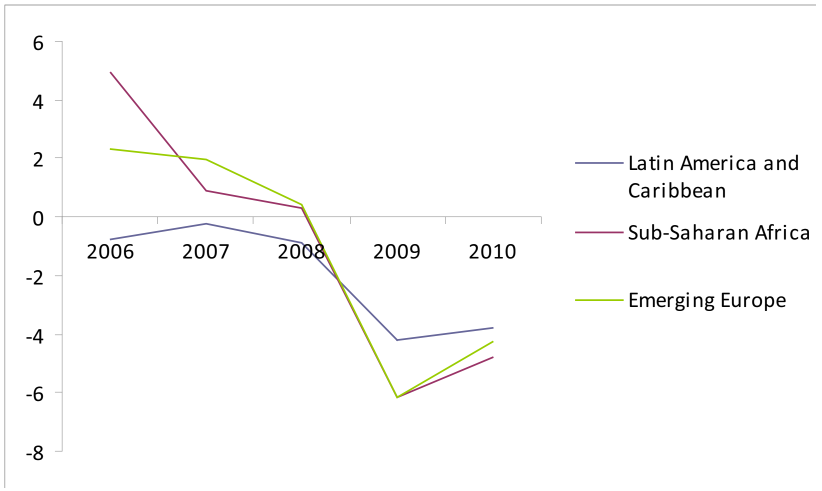
Source: Ocampo and others, 2010

Caribbean. The sharpest falls occurred in the Middle East and North Africa, where government revenues fell by over 5 per cent of GDP, in South Asia, where they fell by almost 4 per cent of GDP, and in Europe and Central Asia, where they fell by over 2 per cent of GDP (Kyrili and Martin, 2010).

For most of the developing world, fiscal deficits emerged as a result of the global crisis (because of falling revenues or as a result of the stimulus spending in response to the crisis) following periods of fairly disciplined fiscal behaviour. Except for a few countries, most developing countries had low deficits or even fiscal surpluses in the years preceding the crisis (see figure V.1).

Figure V.1

Public sector balance, 2006-2010



Source: International Monetary Fund (2010a).

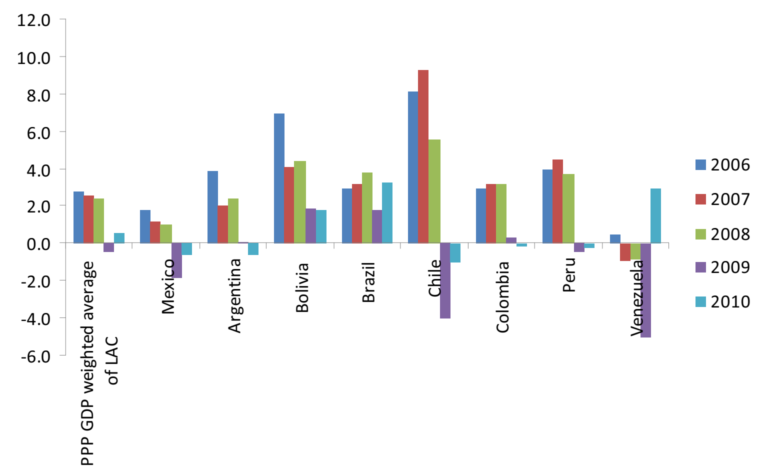
Note: Data are in simple unweighted averages for countries across the region concerned.

The increased fiscal deficits following the start of the crisis did not necessarily reflect a more expansionary fiscal stance in the affected countries, since interest payments tend to account for significant chunks of the overall deficits in most countries. Figure V.2 indicates how the primary public sector balance, that is, the deficit without public sector debt service payments, changed during this period in Latin America and the Caribbean. In the region as a whole, the primary balance either stayed in surplus or moved only marginally into deficit during the crisis and immediate post-crisis periods. Even in countries that showed a primary deficit in 2009, such deficits were typically associated with revenue losses, because

of falling GDP and oil price declines rather than increased public expenditure (as case in Mexico and Venezuela). Several countries were projected to "over-correct" for fiscal improvement in 2010, largely through control of public expenditure. This suggests that, in the Latin American and Caribbean region, fiscal responses to the crisis were quite muted.

Figure V.2

Primary government balances[a] in Latin America and the Caribbean, 2006-2010 (*percentage of GDP*)



Source: International Monetary Fund (2010a).

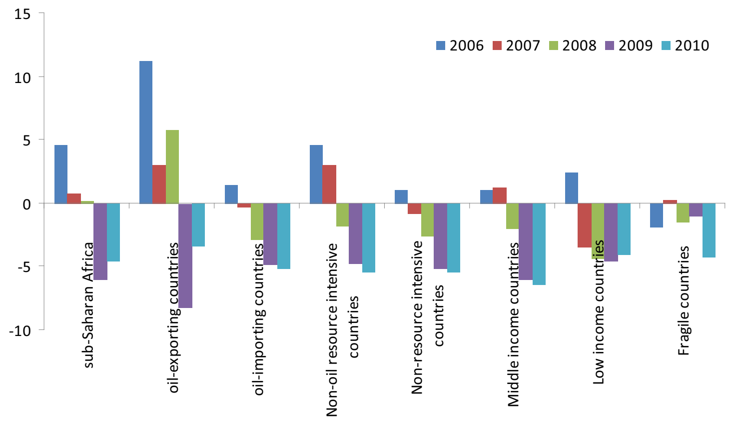
Note: PPP: purchasing power parity; LAC: Latin America and the Caribbean; Bolivarian Republic of Venezuela.

[a] The primary government balance is usually defined as government net borrowing or net lending excluding interest payment on consolidated government liabilities.

The sub-Saharan African experience shows a somewhat different pattern, as indicated in figure V.3. On average, there has been a significant change in the fiscal balances of governments in the region as percentages of GDP. When countries are grouped by type of economy a more nuanced picture emerges. Oil-exporting countries have experienced the largest fall in fiscal balances. In contrast, countries requiring the most proactive fiscal policies—the low-income and fragile economies—show smaller changes in fiscal balances. This is probably due to fiscal capacity, since these countries generally had large pre-existing levels of public debt.

Figure V.3

Fiscal balances in sub-Saharan Africa, 2006-2010 (*percentage of GDP*)



Source: International Monetary Fund (2010b).

Note: Low-income countries: Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, United Republic of Tanzania, Uganda and Zambia; fragile countries: Burundi, Central African Republic, Comoros, Côte d'Ivoire, Democratic Republic of the Congo, Gambia, Guinea-Bissau, Liberia, Sao Tome and Principe, Sierra Leone, Togo and Zimbabwe.

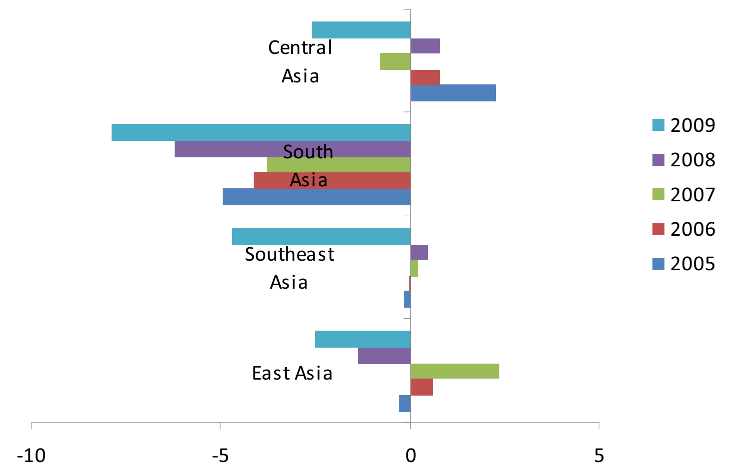
Overall, most Governments in sub-Saharan Africa increased their expenditure-to-GDP ratios during the crisis (Ortiz and others, 2010). However, the increase was most significant for middle-income countries and minimal for low-income countries, reflecting the fiscal space constraints that poorer countries face. The increased government expenditure in "fragile" economies was probably made possible by the flows of official development assistance to these countries, observed in 2009 and 2010. The importance of ensuring greater flows of counter-cyclical aid and other assistance to such countries also emerges from analysis of the types of government expenditure affected by the changing economic circumstances.

In developing Asia, there is a significant difference between South Asia (which had high fiscal deficits in the pre-crisis period) and other parts of Asia (which had fiscal surpluses or very low deficits on average). Once again, the aggregate figures hide substantial intraregional differences (Asian Development Bank, 2010a).

Nevertheless, countries in East and South-East Asia seem to have most dramatically changed their fiscal stances in response to the crisis, as they moved

Figure V.4

Fiscal balances in developing Asia, 2005-2009 (percentage of GDP)



Source: Asian Development Bank (2010b).

Note: Data are in simple averages.

quickly from surplus to deficit, or experienced increased deficits (see figure V.4). In China, for example, the deficit was associated with a significant increase in expenditure by the central Government amounting to 3.3 percentage points of GDP. However, in many other countries, government spending as a share of GDP did not increase very much. It is interesting to observe that the ratio actually fell in countries such as Pakistan, which had to meet loan conditions imposed by the International Monetary Fund.

Effects on social spending

In the face of reduced fiscal space, rising public debt and a policy shift by Governments towards fiscal austerity, the crisis is expected to continue to adversely affect social spending. The initial evidence—albeit somewhat limited—suggests that social spending has suffered significantly in Eastern Europe and Central Asia, areas most severely affected by the downturn. In Latin America, where the impact has been less severe, social spending has been maintained and even increased in some countries. For instance, Mexico has been severely affected, but still expected to increase spending on health and education by 10 per cent (World Bank and International Monetary Fund, 2010). On the other hand, in sub-Saharan Africa, declines in economic growth may result in a cumulative loss of about $30 billion in public spending on education from 2009 to 2013, if the share of public expenditure devoted to education remains constant (United Nations Educational, Scientific and Cultural Organization, 2010).

The education systems of developed countries are also feeling the crunch. A recent survey found that public and private universities in the United States lost an average of 23 per cent of the value of their endowment funds in late 2008 (Zezima, 2009). Children's educational prospects and opportunities have been diminished as many States have cut their budgets for education. In particular, in the face of such cuts in spending on public education, children living in poverty are disproportionately hurt as they cannot afford the cost of alternative private education.

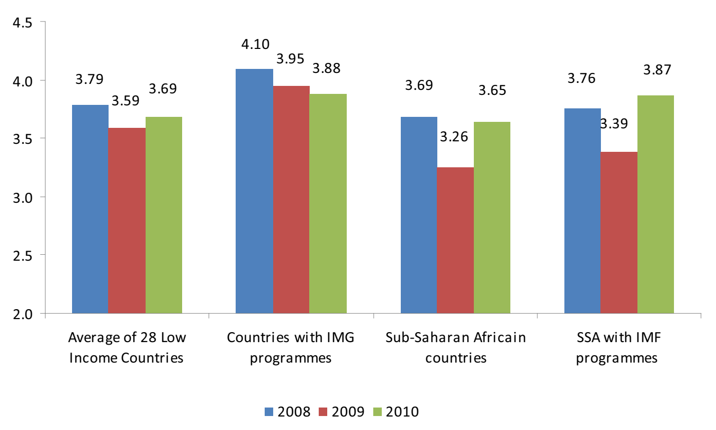
The fiscal accounts of 28 low-income countries during and after the crisis, as presented in figures V.5 to V.9, indicate a very mixed picture. They reveal estimated budget shortfalls of $52.6 billion in 2009 and $12.1 billion in 2010, relative to 2008.

Education spending

Government spending on education has clearly suffered in low-income countries. Such spending fell, in both relative and absolute terms, as GDP declined in a number of countries in 2009 (see figure V.5). Even when spending on education

Figure V.5

Government spending on education, 2008-2010 (*percentage of GDP*)



Source: Kyrili and Martin (2010).

was projected to improve in 2010, in most cases spending on this sector was not expected to recover to 2008 levels. As a case in point, Kenya recently delayed financing free education for 8.3 million primary school children and 1.4 million secondary school children (United Nations Educational Scientific and Cultural Organization, 2010). At the same time, some Governments have called for restoring user fees to close the funding gap.

Spending on health and social protection

In the wake of the crisis, government expenditure as a percentage of GDP has increased for health but declined for social protection. However, although health expenditure has increased as a percentage of GDP, it may not have increased in absolute terms, since GDP has declined as a result of the recession. In addition, the rise in health expenditure may be a direct result of the decline in spending on social protection. The decline in social protection at a time when it is needed leaves most people more vulnerable and can lead to more health problems. Government spending on health and social protection in 28 low-income countries is shown in figures V.6 and V.7.

Out-of-pocket expenditure on health care tends to fall during recessions because people have less disposable income and tend to reduce or avoid spending money on health; alternatively, they may eschew private sector heath care and turn to public services instead. This is what happened in the Republic of Korea during the 1997-1998 Asian financial crisis; there was a clear shift of patients from private hospitals and clinics to public health centres (Yang, Prescott and Bae, 2001). The same may have happened more recently; employees with private insurance who lost their jobs may have turned to public health services. The upshot is that Governments are forced to spend more on health, or at least maintain their health budget. In countries where public sector health programmes are already overstretched or under financial strain, an increase in demand for these services could cause additional financial problems.

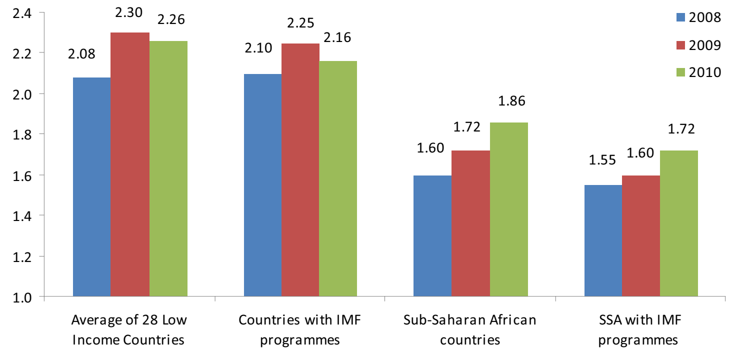
In developed countries, social protection measures serve as "automatic stabilizers", rising in periods of crisis when employment and livelihoods are adversely affected. In low-income countries, however, social protection systems do not automatically grow during periods of greater social need because they are weakly developed (with miniscule public funding) and not adequately institutionalized. Indeed, it is more likely that budgetary stringency, associated with falling State revenues, will result in cuts in spending on social protection at a time when social protection is most needed.

Spending on infrastructure and agriculture

The available evidence for low-income countries indicates that during the current crisis, spending on infrastructure and agriculture, as shares of GDP, was

Figure V.6

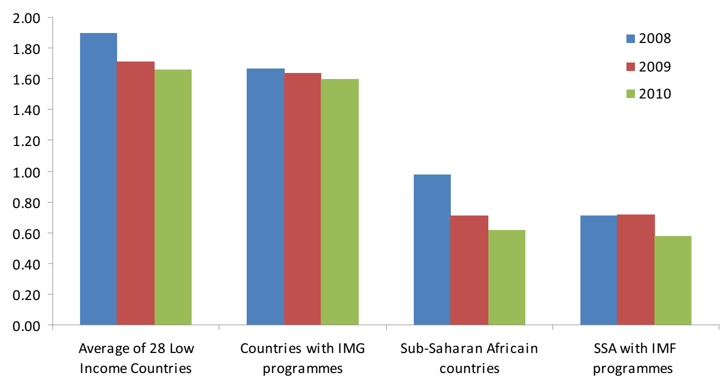
Government spending on health, 2008-2010 *(percentage of GDP)*



Source: Kyrili and Martin (2010).

Figure V.7

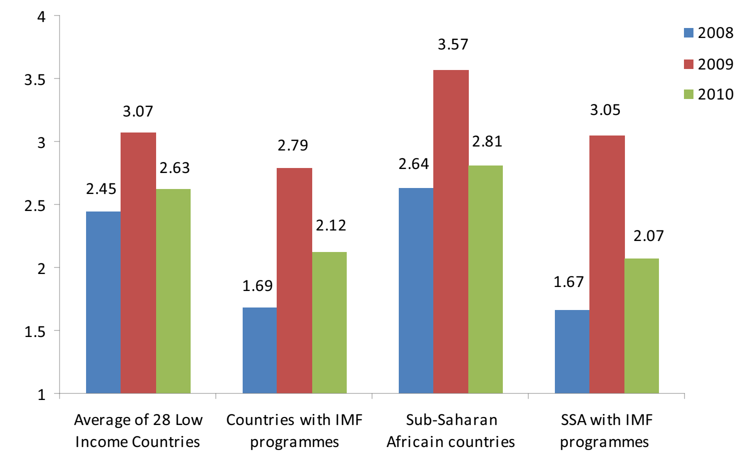
Government spending on social protection, 2008-2010
(percentage of GDP)



Source: Kyrili and Martin (2010).

Figure V.8

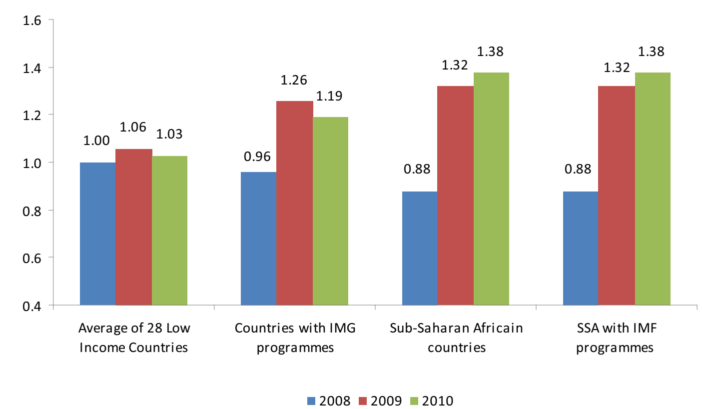
Government spending on infrastructure, 2008-2010 (*percentage of GDP*)



Source: Kyrili and Martin (2010).

Figure V.9

Government spending on agriculture, 2008-2010 (*percentage of GDP*)



Source: Kyrili and Martin (2010,).

maintained initially and even increased later (see figures V.8 and V.9). This is reassuring because these low-income countries have very weak infrastructure and tend to be economies where agriculture is the main source of livelihood. However, spending on infrastructure and agriculture is likely to decline as fiscal pressure mounts and developed countries cut their aid budgets in their efforts to consolidate their fiscal situations.

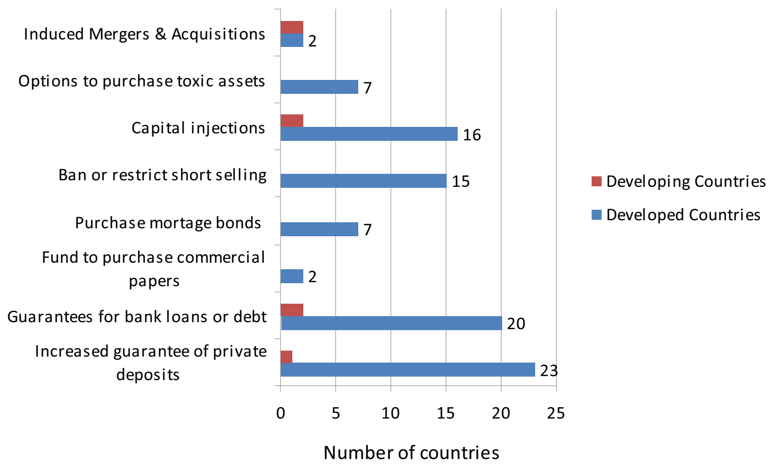
Policy responses to the crisis: an overview

By mid-2009, many developed countries as well as some developing countries had announced a range of stimulus measures, involving monetary, financial, fiscal and labour market policies, about $2.6 trillion in total (United Nations, 2009b). Most of the countries initially adopted expansionary monetary policies, as reflected in their interest rate adjustments until the end of 2008. These steps were supplemented by efforts to repair the financial system in developed countries (figure V.10).

By the end of 2008, it was clear that the global financial and economic crisis could not be tackled through expansionary monetary policy alone, and many countries rolled out fiscal stimulus packages. On average, in 2008, 48 countries

Figure V.10

Financial policy responses to the crisis, 2008-2009



Source: International Labour Organization (2009b).

spent about 4.3 per cent of their GDP on fiscal stimulus measures (see table V.1). There were several countries that announced fiscal stimulus measures in excess of 10 per cent of their GDP: China (13.2 per cent), Georgia (19.9 per cent) and Thailand (17.2 per cent), with the package of Viet Nam being almost at that level (9.7 per cent). All these packages entailed a combination of spending on infrastructure, income transfers and tax cuts.

Social protection and labour market measures

An analysis of fiscal stimulus packages announced in 35 countries found that, on average, about 25 per cent of the stimulus spending was disbursed on social protection measures in these countries (Zhang, Thelen and Rao, 2010).[2] Allocations for this purpose amounted to about $653 billion, or almost 1 per cent of global GDP in 2008. Of these 35 countries, 29 had allocated more than 10 per cent of their fiscal stimulus measures to social protection. The economies that devoted the largest proportion of their fiscal stimulus package to social protection were South Africa (56 per cent), Singapore (52 per cent), Taiwan Province of China (47 per cent) and Finland (43 per cent). In the United States, 39 per cent of the stimulus package was devoted to social protection; France devoted 16 per cent and Germany 25 per cent (Zhang, Thelen and Rao, 2010). The top three expenditure items, accounting for 62 per cent of the total, were infrastructure, social protection and other specific support measures. In absolute terms the two top spenders on social protection were the United States ($310 billion) and China ($135 billion).

Spending on the construction and maintenance of public and social housing was included in the packages of 10 countries. For example, China announced it would spend 400 billion yuan, 10 per cent of its total stimulus package, on public housing. The stimulus package of Viet Nam included 24 trillion dong (17 per cent of the total for stimulus measures) to build houses for workers and low-income families. A number of countries also announced direct or indirect health funding, such as increased spending on public health (China, Honduras, Indonesia, Japan, Kenya, Peru, South Africa, Thailand,

2 The study is based on fiscal stimulus packages for which the authors found reliable information. They constitute a subset of all stimulus packages announced at the onset of the crisis. The amounts presented may understate the actual size of the social protection components of the fiscal stimulus measures in some countries because information on their stimulus plans is incomplete. Additional social protection measures not included in the stimulus plans may have been put into place. Thus, the size of the social protection stimulus presented includes only stimulus spending announced in official sources. As there is no unanimous definition or clear categorization of social protection measures, social protection measures are defined here as policy interventions aimed at reducing poverty and vulnerability (including transitory poverty and vulnerability due to economic or other shocks) and improving human welfare. Examples of such interventions include public education, health and housing, labour market and social protection measures, as well as contributory social insurance programmes and non-contributory safety net (social assistance) programmes.

United States), compensation for contributions to statutory health insurance schemes (Germany), health insurance assistance (Switzerland, United States), or lowering the value added tax rate for medication (Austria); 13 countries included new measures for education. Developing countries tended to focus on primary education: China devoted 150 billion yuan to pro-poor and pro-rural health care and education; Malaysia committed 0.2 billion ringgit to preschool education.

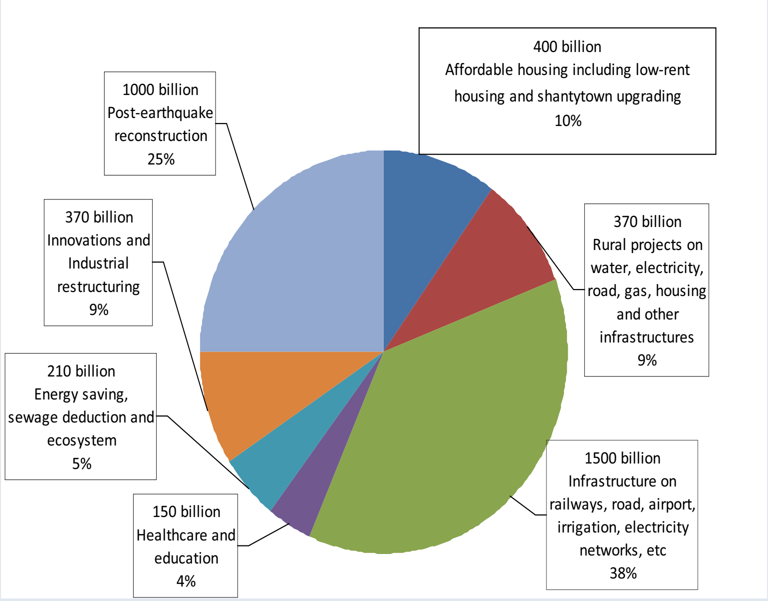
The crisis also accelerated plans to expand social protection coverage. China launched a major reform in December 2009 to introduce a basic pension scheme for 700 million rural residents (International Labour Organization, 2010f). Pakistan introduced the Benazir Income Support Programme for 6-7 million poor households. Yemen extended its cash-for-work and cash transfer programmes. The Philippines recently launched a conditional cash transfer programme that is being rapidly scaled up in response to the crisis. Brazil has expanded its successful *Bolsa Familia* (family allowance) programme to cover an additional 1.8 million families and has increased the programmes's benefit by 10 per cent to compensate for increased food prices (Berg and Tobin, 2011).

In Latin America, conditional cash transfer programmes as well as higher spending on social protection programmes ensured that the region was better prepared to respond to and mitigate some adverse effects of the crisis. Today, conditional cash transfer programmes reach more than 22 million families in 17 countries (Economic Commission for Latin America and the Caribbean, 2009). Governments also took additional steps to protect the poor and indigent from the effects of the global recession. Argentina expanded welfare payments to 3.5 million children through its Universal Child Allowance (*Asignación Universal por Hijo*) while Brazil and Mexico have continued to expand coverage of their cash transfer programmes to low-income households. Chile and El Salvador have also undertaken initiatives to promote the employment of women by providing micro and small enterprise subsidies for female heads of households, and temporary income support for young men and women from the poorest urban municipalities (Economic Commission for Latin America and the Caribbean, 2009).

In sub-Saharan Africa, many countries tried to ease the burden of the crisis on the most disadvantaged and vulnerable members of society by increasing spending on existing as well as new social safety net programmes. Ethiopia introduced wheat subsidies to ease the impact of inflation on the urban poor and vulnerable rural populations. Senegal created a cash transfer programme for mothers and young children, and Namibia and South Africa enhanced support grants for the elderly and children, while increasing spending on health and low-income housing. Interventions in Ghana, Kenya and Nigeria included food distribution to vulnerable groups, school feeding programmes and cash transfers (te Velde and others, 2010). However, restrictions on incurring further external debt have constrained the ability of countries that benefited from international debt relief efforts to implement broad fiscal stimulus measures (Arieff, Weiss and Jones, 2010).

Box V.2

Fiscal stimulus package of China



The largest fiscal stimulus package in absolute terms after that of the United States is China's. A recent study (Jia and Liu, 2010) of that fiscal stimulus package found that the overwhelming share of the public expenditure package, worth 4 trillion yuan, was for infrastructure, with less than 4 per cent allocated for health care and education.

These measures should increase output and productivity in the economy in the medium to long term (with some effects already visible). It is generally agreed that improved transport infrastructure and greater connectivity have positive implications for human development, including living conditions and access to education and health services. However, specific measures are also required.[a] Therefore, some other incentives have been provided to increase consumption, including tax cuts on consumer durables and easing credit, which have boosted consumer confidence and housing finance. Nevertheless, it is clear that fiscal stimulus in China was effective in maintaining aggregate demand and growth, and in enabling employment to recover quickly.

a Health reform has been proposed as a measure to ensure access to basic health services and drugs for the entire population, which would require an additional 850 billion yuan in government spending over the next five years. This measure is designed to decrease the need for household out-of-pocket health expenditures, as well as the associated need for precautionary savings; however, its impact has yet to be felt.

Source: Jia and Liu (2010, pg. 4).

In the Middle East and North Africa, the most popular responses were to subsidize basic food prices, protect wages in some sectors and improve access to education and health services. Egypt, Morocco, Saudi Arabia and Turkey also adopted fiscal stimulus measures designed to create jobs through infrastructure investments (Jones and others, 2009).

In addition to extending social protection measures, developed economies pursued large-scale rapid-response measures aimed at stimulating labour demand and accelerating employment recovery. These included support for small and medium-sized enterprises, various active labour market programmes, hiring incentives for employers and increased public sector employment to compensate for the decline in private sector jobs. For example, in France and the Netherlands, short-term work schemes have been promoted through government subsidies. Germany also reduced working hours to prevent layoffs through its work-sharing programme called *Kurzarbeit*, which by mid-2009 involved 1.5 million workers. In Australia and the United Kingdom employers were provided with hiring subsidies, while in the United States and other OECD countries unemployment benefits were extended (International Labour Organization and Organization for Economic Cooperation and Development, 2010). These policies contributed to reducing job losses besides maintaining and enhancing workers' skills.

In the Asia-Pacific region, several countries provided the unemployed and laidoff employees with job-training programmes. For example, Thailand targeted new graduates, while Bangladesh focused on laidoff returning migrant workers. Viet Nam offered loans at preferential rates to the poorest to encourage production and trade in rural areas. Public works programmes, sometimes referred to as cash-for-work programmes or employment guarantee schemes, were adopted in many countries in response to rising unemployment.

Policy responses to the food crisis

Many developing countries were faced with a number of policy dilemmas and challenges. At least 80 countries tried to curb rising food prices and minimize the impact of the food price crisis on the poor by putting in place short-term measures, including food subsidies, price controls, export restrictions and outright bans on foreign exports (Lustig, 2009). Some countries modified their biofuel policies to reduce the pressure on food supplies, while others released government-held grain stocks onto domestic markets (Swinnen and Herck, 2010). Such measures helped stabilize food prices and ease the food burden faced by the poor and other vulnerable groups.

Food-importing countries in sub-Saharan Africa took aggressive actions to lower tariffs or value added taxes on food grains in order to reduce prices for consumers (Revenga, Wodon and Zaman, 2008). These measures were complemented by strengthening food safety nets, such as cash transfer programmes, food-for-work

schemes, school feeding programmes and food rationing. In practice, the impact of these programmes was limited because of the tight fiscal space that these Governments faced. In the Middle East and North Africa, Eastern Europe and Central Asia, price controls and subsidies were some of the most common responses. Unfortunately, the safety nets targeting the poor did not protect the "new poor" or poor households not poor enough to be covered by such programmes. Also, many middle-income households were forced to adjust their food consumption patterns.

Yet, these policies did not address the root causes of the global food price spike. In order to better protect their populations from the vagaries of the markets, however, several developing countries have taken steps to boost domestic food production, including provision of free or subsidized agricultural inputs, such as fertilizers, and improving access of farmers to credit.

Concluding remarks: policy space is crucial

Developing countries have largely overcome past economic crises through export-led recoveries. The global nature of the recent crisis limits that option. Countries with the flexibility to implement counter-cyclical policies have been better able to mitigate the impacts of the crisis on their economies and people. Like-wise, countries that have social protection systems as well as active labour market programmes in place, have been in a better position to mitigate adverse social impacts. It seems many countries learned lessons from previous crises and devoted substantial shares of their stimulus spending to the social sector to either expand existing programmes or to implement new ones.

Unfortunately, many poorer developing countries lack the institutional and/or fiscal capacity to finance effective stimulus and welfare measures on their own. Instead, they must depend on aid to fill budgetary shortfalls in education, health and other programmes aimed at addressing poverty. The United Nations Educational, Scientific and Cultural Organization estimates that the average annual shortfall in funding needed to meet the internationally agreed development goals in education is $16 billion, $5 billion more than previously estimated (United Nations Educational Scientific and Cultural Organization, 2010). The crisis dampens the prospects for closing this gap. Thus, policy adjustments to support social spending and improve economic growth are essential to limit the impact of the crisis on poverty. The adequacy of international responses to the crisis is examined in the next chapter.

Chapter VI

International Responses

International cooperation in response to the financial and economic crisis was spearheaded by the leaders of the G20 countries who, at their summits in London and Pittsburgh in 2009, pledged to undertake and continue for as long as necessary the stimulus and other extraordinary recovery measures that they had initiated.[1] The G20 leaders also pledged to deliver on all aid and other international development commitments and to resist protectionist tendencies. At the Pittsburgh Summit, they agreed to establish a policy coordination framework for balanced and sustainable growth of the global economy. Thus, those leaders committed themselves to avoiding the "beggar-thy-neighbour" policies that had hampered recovery from the Great Depression of the 1930s.

However, thus far, actual policy coordination has been superficial at best, and has lacked a more concrete framework with clear policy targets, sufficient consensus on the size and time horizon for continued stimulus measures and mechanisms to make concerted actions binding. This chapter examines some salient features of the G20 responses, particularly those aimed at supporting developing countries, and crisis lending by the International Monetary Fund.

Crisis response of the Group of Twenty

The crisis generated a strong initial response led by G20 leaders in terms of increased official financing for developing countries and those countries with economies in transition, as well as middle-income countries. Financial commitments of $1.1 trillion were announced at the G20 Summit held in London on 2 April 2009. This included allocation of IMF special drawing rights (SDRs) worth $250 billion, though nearly half (44 per cent) of this amount went to G7 countries under SDR quota entitlements. Only $80 billion (32 per cent) was for developing countries, with low-income countries only eligible for about a fifth of this (see table VI.1). Further, only a fairly modest share of the increased lending by the 16 international financial institutions has benefited low-income countries.

While it is important to increase the support to middle-income countries in line with their significance in the global economy and the large number of poor people who live in these countries, it is even more important to increase support

1 The leaders of the G20 countries met in London in April and in Pittsburgh in September 2009.

for low-income countries as they face significantly greater challenges. As table VI.1 shows, the G20 response fell short in this regard.

Table VI.1

G20 responses

Category	Amount (Billions of United States dollars)	
IMF financing	500	No new commitment
Financing by multilateral development banks	100	No matching commitment
Allocation of special drawing rights	250	44 per cent to G7; only $80 billion to developing countries
Trade Finance	250	No matching commitment
Total	1,100	

Source: Islam and Chowdhury (2009).

Further, lending by the international financial institutions was dwarfed by the massive drop in private non-FDI flows (portfolio investment and other private investments). Therefore, the counter-cyclical role of those institutions, although valuable, was modest and insufficient. The quantum of official financing furnished to emerging and developing economies in 2009 amounted to only $50 billion, about 15 per cent of the net private portfolio and other private financial outflows (–$331 billion) (Ocampo and others, 2010, table 3). In aggregate, net official flows to developing countries remained negative in 2009, albeit at a lower level than in previous years, and are estimated to have gone deeper into negative territory in 2010, continuing the trend of the past decade (United Nations, 2011, table III.2).

Unfortunately, with the advent of some early signs of recovery, the solidarity of leaders and their commitment to sustaining stimulus measures began to weaken from mid-2010. Despite their commitments at Pittsburgh, leaders of the G20 countries disagreed over sustaining fiscal stimuli and mounting public indebtedness, at their Summit in Toronto, Canada, in June 2010. The uncoordinated retreats to fiscal austerity by most OECD Governments (except for the United States) and some further monetary easing (especially in the United States) resulted in greater global economic uncertainty. Although the G20

Summit in Seoul, held on 11 and 12 November 2010, emphasized the need to support development and global policy coherence, it delivered few specifics for coordinated progress. Any further weakening of the G20 commitment to international policy coordination will have serious implications for social development both in developed and developing countries as it will further set back prospects for the strong, sustained and balanced growth envisaged and needed to mitigate the negative social impacts of the crisis.

Responses of the International Monetary Fund

Although the International Monetary Fund failed to anticipate the crisis, its timing or its magnitude, and could not forewarn its membership, it acted quickly to propose recovery measures. Its response to the recent crisis involved some radical departures from its earlier orthodoxy that guided the lending and policy advice it had given in recent decades, especially during the Asian financial crisis in 1997-1998. Soon after the outbreak of the current crisis, the Fund recommended the implementation of fiscal stimulus measures, especially in the affected developed countries, contrary to its earlier recommendations of fiscal and monetary tightening in the face of financial or balance-of-payments crises. The Fund argued that direct spending by Governments would be more effective than tax cuts and monetary policy measures. It also argued that Governments should make sure that existing programmes were not cut for want of resources. In November 2008, the International Monetary Fund issued a statement suggesting that, to be effective, fiscal stimulus packages across systemically important countries should be globally coordinated and should amount to about 2 per cent of their collective GDP.

Immediately after the collapse of Lehman Brothers Holdings, Inc., in September 2008, a number of countries facing extreme balance-of-payments difficulties—including Georgia, Hungary, Iceland, Latvia, Pakistan and Ukraine—were forced to seek assistance from the Fund in the form of standby arrangements. Several poor countries, especially in Africa, made use of the Fund's Poverty Reduction and Growth Facility, and by 31 December 2008, another set of countries, including the Democratic Republic of the Congo, had joined them. However, the amounts involved were comparatively very small: at the end of December 2008, the *total* amount of credit outstanding was only SDR 17.5 billion under the Fund's General Resources Account and only SDR 4 billion under the Poverty Reduction and Growth Facility.

As mentioned previously, at the G20 Summit in London in April 2009, the Fund's resource base was effectively quadrupled from $250 billion to $1 trillion. The Fund, as a result, promised that concessional lending to low-income countries would be increased tenfold over pre-crisis levels by 2014. The Fund also announced some changes in both the nature of and the conditions associated

with its lending instruments. As part of its new Poverty Reduction and Growth Trust, it announced four "new" lending windows to become effective in January 2010.[2]

By the end of May 2010, the Extended Credit Facility, which replaced the concessional Poverty Reduction and Growth Facility, had promised about SDR 2.6 billion to 25 countries (an average of about SDR 100 million per country). However, less than half that amount (only SDR 1.2 billion) was actually disbursed. In 2009, total disbursements under the Poverty Reduction and Growth Trust amounted to only SDR 1.6 billion, while in the first two quarters of 2010, the disbursement was only SDR 0.5 billion. Since repayments were about the same in this period, this meant that there was no increase in net disbursements under the newly created Poverty Reduction and Growth Trust (International Monetary Fund, 2010c). With the larger lending windows in the Fund's General Resources Account, SDR 20.5 billion was proffered in 2009 and SDR 10.4 billion in the first half of 2010. Just five countries—Hungary, Pakistan, Romania, Ukraine and Greece—accounted for nearly half the amount disbursed. This means that the other countries received miniscule amounts from the Fund, and these amounts are unlikely to have gone very far in compensating for the loss of export revenues and private capital flows, much less in easing the constraints on domestic investment, consumption and growth caused by the crisis.

Meanwhile, the newly created Flexible Credit Line facility served mainly to support countries with strong economic fundamentals in warding off potential market attacks. While the facility has been made available to three countries, namely Columbia, Mexico and Poland, no money has actually been disbursed. It could be the case that the stringent criteria for eligibility—in terms of "strong macroeconomic fundamentals" and "good existing policies"—mean that in practice, very few countries needing access to such flexible credit arrangements would qualify, while qualified countries used the Flexible Credit Line primarily for precautionary purposes (International Monetary Fund, 2010d; 2011a; 2011b). As a result, the new facility functioned mainly to help improve market sentiment towards countries rather than to provide actual resources.

Such lending is small compared with the resources available to the Fund. As figure VI.1 indicates, committed resources have amounted to only abouquarter of the total usable resources under the General Resources Account, which covers the Standby Arrangements, Extended Arrangements and Flexible Credit Line. Uncommitted usable resources increased from SDR 213 billion in 2009 to SDR 230 billion in 2010 (International Monetary Fund, 2010c). The countries concerned have actually only been provided with a third of the committed resources. Clearly, the Fund is not lacking in additional resources that could

2 The Extended Credit Facility, Standby Credit Facility, Rapid Credit Facility and Flexible Credit Line.

be offered to developing countries as well as others more strongly affected by the crisis.[1] The fact that such small amounts have actually been made available to developing countries suggests that such facilities have not served as a viable alternative to the reduced availability of market finance.

In addition, an allocation in the amount of SDR 161.2 billion was finally approved in August 2009 after having been held in suspension since 1995. This increased the SDR holdings of members, including their cumulative SDR allocations, by 74.1 per cent of their quotas. A special allocation of SDR 21.5 billion was implemented on 9 September 2009 for those countries that had joined the Fund after 1981 and had therefore never received any SDR allocation. A general allocation of SDRs is directed towards easing global liquidity constraints rather than rectifying macroeconomic imbalances across countries or easing the specific liquidity issues of deficit countries. Owing to the practice of making allocations by quota, the amounts received by small developing countries have been extremely small. Furthermore, since these allocations were made when there was continuing economic uncertainty, most deficit countries simply added these SDRs to their existing foreign exchange reserves. It does not appear that the exchange of SDRs for "hard" currency (possible under the Fund's rules) has been used by any country since the crisis.

As noted previously, the Fund explicitly declared changes in the design of the agreed policy packages for all these programmes, the purpose being to strengthen the Fund's focus on supporting poverty alleviation and economic growth; protect public spending, even as the economic downturn cut revenues; increase spending targeted towards the poor; and focus loan conditions to enhance the transparent management of public resources.[2]

The Fund's internal review, published in September 2009, was positive about the changes in the mode and conditions of lending and their impacts. However, several independent assessments have found little significant change in the basic conditionalities imposed on recipient countries, notwithstanding some changes in preserving certain social expenditures or safety nets.

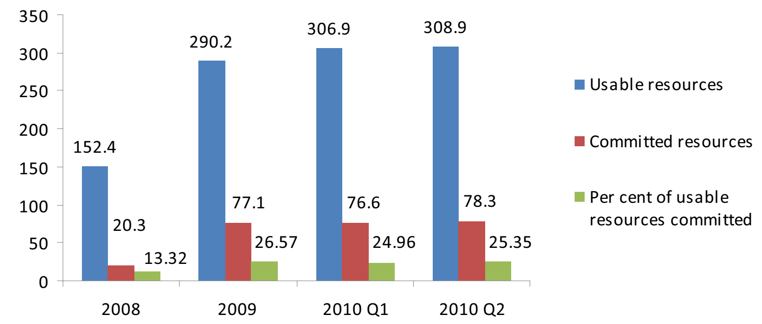
For example, Weisbrot and others (2009) examined agreements between the Fund and 41 countries to assess the extent to which the Fund had supported pro-cyclical macroeconomic policies in borrowing countries during the recent global recession. Pro-cyclical fiscal policy in this context involved a programmed reduction in the fiscal deficit—or an increase in the fiscal surplus—during a

1 In any case, since the International Monetary Fund can borrow from the markets to lend to countries, this situation never needs to be a constraint to non-concessional lending under the General Resources Account.

2 See "International Monetary Fund Factsheet: IMF Support for Low-Income Countries", 24 March 2010. Available from: http://www.imf.org/external/np/exr/facts/pdf/poor.pdf.

Figure VI.1

Usable and committed resources under the General Resources Account of the International Monetary Fund



Source: International Monetary Fund (2010c).

recession or a significant economic slowdown.[3] In contrast, a programmed decrease in the fiscal surplus (or an increase in the fiscal deficit) in such conditions may be considered counter-cyclical.[4] With regard to monetary policy, an increase in policy interest rates during a recession or a significant economic slowdown may be regarded as pro-cyclical, with an interest rate cut being counter-cyclical. Some agreements did not target growth in money supply and were thus not counted as pro-cyclical nor counter-cyclical on this measure. Some explicitly indicated a tightening of monetary policy, and these agreements were counted as pro-cyclical monetary policy. For other agreements that did not specify the direction of monetary policy, if growth in money supply was significantly less than nominal GDP growth, then that was counted as tightening.

This study found that 31 of the 41 agreements contained pro-cyclical policies. In 15 cases, both fiscal and monetary policies were pro-cyclical in terms of adding to contractionary or recessionary forces already operating in the

3 For example, in Hungary, the IMF agreement in 2008 called for reducing the fiscal deficit from -3.4 per cent of GDP in 2008 to -2.5 per cent of GDP in 2009, while GDP growth fell from 0.5 per cent in 2008 to a projected -6.7 per cent for 2009.

4 It should be borne in mind that periods of recession generally involve increases in fiscal deficits in any case because of the decline in government revenues and increase in government expenditures for social welfare programmes.

Box VI.1
Conditionalities of the International Monetary Fund

Using the Monitoring of Fund Arrangements database, which contains details on conditionality in International Monetary Fund-supported arrangements and tracks the performance of countries, the figures below were constructed to show the Fund's structural conditionalities per programme during the recent crisis.

For the Fund's Stand-By Arrangement, the average number of structural conditions per country during the period 2008-2009 was 12; on average the most frequent conditions were as follows: Structural Benchmarks[a] (7), Prior Actions[b] (3) and Performance Criteria[c] (1). For its Poverty Reduction and Growth Facility programme, the average number of structural conditions per country during the period 2008-2009 was 15; on average most conditions were as follows: Structural Benchmarks (9), Performance Criteria (3) and Prior Actions (2). For all Fund programmes during the period 2008-2009, the average number of structural conditions totalled 13, compared with the 17 described in the Fund's Independent Evaluation Office report for the period 1995-2004, which suggests some reduction in conditionalities unless they had been bunched.

For the Poverty Reduction and Growth Facility arrangements, the average number of conditions remained constant at 15, while the number of conditions under the Stand-By Arrangement declined from 19 to 12.

a These are to be applied to measures that may not be objectively monitored or where non-implementation would not, by itself, warrant interruption of IMF financing. They are intended to serve as clear markers in the assessment of progress on structural reform.

b These are measures that a country is expected to adopt before the approval of an arrangement or completion of a review. They are to be used when immediate enactment of the associated policy is seen as critical for the success of the programme, or when there are doubts that the measure would be implemented later if specified as a performance criterion.

c These are specific conditions that have to be met during a programme in order for the agreed amount of credit to be disbursed.

Source: Ocampo and others (2010)

economy concerned. Contractionary fiscal responses were required in the case of 23 agreements; significant reductions in the public sector wage bill, either through nominal wage reductions or by letting go workers, were stipulated in 18 agreements. Monetary policy requirements were similar, with 19 agreements specifying contractionary measures; 12 agreements required increases in interest rates when private borrowers, especially small producers, were already facing credit crunches and could not service existing loans. Even when fiscal policy was not explicitly contractionary, the focus was on raising fiscal resources through privatization of State-held assets, even in poor market conditions, which implied that Governments would receive relatively little for such sales from private—often foreign—purchasers.[5]

5 The Fund refuted the findings of the Center for Economic Policy Research; however, the Fund's

Another study (Van Waeyenberge, Bargawi and McKinley, 2010), looking at 13 low-income countries that had received assistance from the International Monetary Fund since the crisis started, found that its basic macroeconomic policy orientation had hardly changed for those countries. Even economic liberalization and financial deregulation conditionalities or advice had not been revised.

In some cases, the Fund pointed to the need to protect and sometimes expand priority pro-poor social spending within a contractionary fiscal framework. However, developing countries were often forced to cut their fiscal budgets due to inadequate funding, including from the international financial institutions and the donor community. Many of these countries have predominantly poor populations as well as very inadequate infrastructure and public services, and can only provide minimal socio-economic rights for the majority of their people. Therefore, cutbacks in fiscal spending in such countries are likely to have direct implications for economic and social conditions, especially for the poor and vulnerable.

As for the structural conditions, the database indicates that, although most conditions were reflected in the Fund's core mandate—public financial management and financial sector soundness—the Fund continued to promote conditions in areas beyond that mandate, albeit less so if compared with the period before 2007. These non-core areas include state-owned enterprise reform, social policies, civil service reform or regulatory reform, particularly for subscribers to Poverty Reduction and Growth Facility agreements (Independent Evaluation Office of the International Monetary Fund, 2011, see tables A.1 and A.2 in the Appendix to the evaluation report for some examples of structural conditions for the different countries that sought help from the Fund between 2008 and 2009. Significant concerns remain about the nature of some macroeconomic policies promoted by the Fund, which many see as pro-cyclical.

own definition of "pro-cyclicality" and methodology for determining the programme's effects are deemed too narrow. In countries with "automatic stabilizers", following an economic slowdown, fiscal deficits normally grow as revenues decline and social spending increases. However, to regard the fiscal stance as pro- or counter-cyclical, one needs to examine whether there are discretionary changes in spending or tax measures. Between September 2008 and March 2009, the Fund negotiated Stand-By Arrangement loans with nine countries: Belarus, El Salvador, Georgia, Hungary, Iceland, Latvia, Pakistan, Serbia and Ukraine. An assessment by the Third World Network revealed that the Fund's fiscal and monetary policies remained as tight and restrictive now as in previous years. For example, its Stand-By Arrangement loan of $532 million for Serbia stated that "there is no scope now for counter-cyclical fiscal loosening. Anything less than a tight fiscal stance could also jeopardize the credibility of the program in the eyes of foreign investors and the Serbian public. Fiscal policy will in addition need to put a tight constraint on wage growth in government sectors and public enterprises". (For more information, see http://www.twnside.org.sg/title2/par/IMF.Crisis.Loans-Overview.TWN.March.2009.doc.)

Policy responses to the food crisis

In response to the severity of the global crisis in food prices, the international community reacted quickly and tried to stabilize food prices in low-income food-deficit countries and to reduce the impact of this crisis on the world's poor and vulnerable households. In large measure, these responses were driven by the desire to protect poor and vulnerable households from falling into extreme poverty and hunger, as well as to avoid political instability in some poor countries that had seen widespread discontent, including food riots.

The United Nations, international financial institutions, regional development banks and other international philanthropic organizations rapidly mobilized resources and deployed a series of measures to help protect vulnerable populations. In April 2008, the Secretary-General of the United Nations set up the High-Level Task Force on the Global Food Security Crisis for the purpose of developing a long-term response to the crisis. The United Nations system also increased assistance to food-deficit countries. The World Bank set up its Global Food Crisis Response Programme in May 2008 to provide countries strongly affected by the crisis with immediate assistance in reducing the threat posed by high food prices, and more recently, the Global Agriculture and Food Security Programme, a multilateral financing mechanism which enables the immediate targeting and delivery of additional funding to public and private entities to support national and regional strategic plans for agriculture and food security in poor countries. Financial contributions to the Global Agriculture and Food Security Programme to date have been provided or pledged by four G20 member countries, namely Canada, Spain, the Republic of Korea and the United States, as well as the Bill and Melinda Gates Foundation (World Bank, 2010e).

The G20 countries have also supported initiatives designed to increase agricultural productivity. In September 2009, in response to a G20 request, the World Bank took steps to establish a special multilateral trust fund to boost agricultural productivity and food security in low-income countries. The G8 Summit in Italy in 2009 launched the l'Aquila Food Security Initiative and pledged $20 billion over 3 years in support of comprehensive, country-led and coordinated responses to food insecurity. However, the fulfilment of these commitments has been slow and there remains considerable doubt whether these commitments will be met at all.

Concluding remarks: a balance between stimulus and austerity

A closer look reveals that the pledges made by the G8 and G20 countries to help poor countries cope with the Great Recession largely involve repackaging previous aid commitments. There is little in the way of providing new funds so that poor countries could protect their progress in social development. In 2009, the President of the World Bank Group called for developed countries to commit

0.7 per cent of their stimulus packages to the newly created "vulnerability fund" to foster recovery and strengthen social protection in those developing countries with inadequate fiscal means to do so on their own resources. Available evidence suggests that new commitments in the area of education, for example, have fallen far short of the amounts requested (United Nations Educational, Scientific and Cultural Organization, 2010).

More worrysome, the austerity programmes that many donor countries are now implementing are likely to result in cuts in their aid budgets at a time when low-income countries have the greatest need for such aid support. In particular, low-income countries with limited fiscal space need additional ODA in order to finance the expansion of social services and programmes to meet the Millennium Development Goal targets, as well as to pursue counter-cyclical and broader development policies. These increased needs contrast with the significant shortfalls in aid delivery against the long-standing commitments made by donor countries. Apart from delivering on existing aid commitments, donor countries should "delink" aid flows from their own business cycles in order to prevent delivery shortfalls during downturns, when the need for development aid is most urgent (United Nations, 2010f).

In response to the call for an internationally coordinated and funded response to the crisis, the international financial institutions have started to rethink their approach and acknowledged the importance of stimulus spending, including maintaining and increasing social spending to address the crisis. This represented a departure from the previous approach of these institutions. However, there is significant evidence of a disconnect between policy pronouncements and actions as actual policies and operations have not fully reflected the new thinking.

If there is to be any hope of success in meeting the Millennium Development Goal targets by 2015, rich countries will need to support social and economic recovery in the poorest countries by fulfilling their aid commitments and expanding debt forgiveness and workouts.

Finally, Governments in developed countries should seriously evaluate the social impacts of their austerity measures. They are not only directly reducing social spending and contributing to joblessness in their own countries, but are also placing national and global recovery at risk, making it even more challenging for poor countries to protect the gains they have made towards achieving the Millennium Development Goal targets and accelerating social progress.

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