



The Global Economic Crisis, Recovery and Social Protection

International Conference On
Gender and Global Economic Crisis

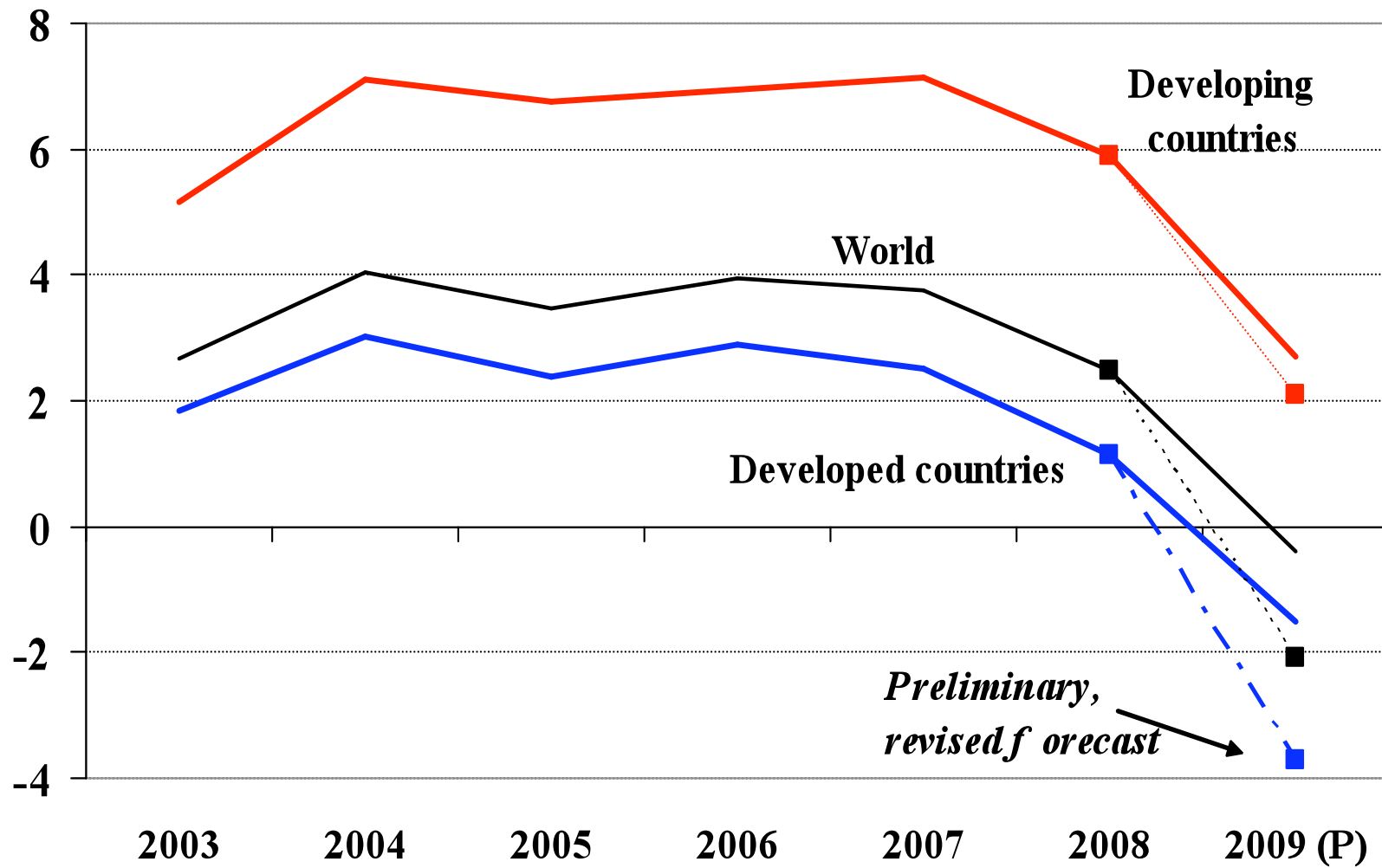
New York
13 July 2009

Deflationary spiral



- Asset (stock, property) markets deflating
 - negative wealth effect
 - more bank insolvency
 - generalized credit squeeze
- Lower external demand, world trade
 - excess capacity
 - investment slowdown
- Depressed domestic demand
 - lower prices, output
 - lower employment, incomes

Globalization: Parallel fates

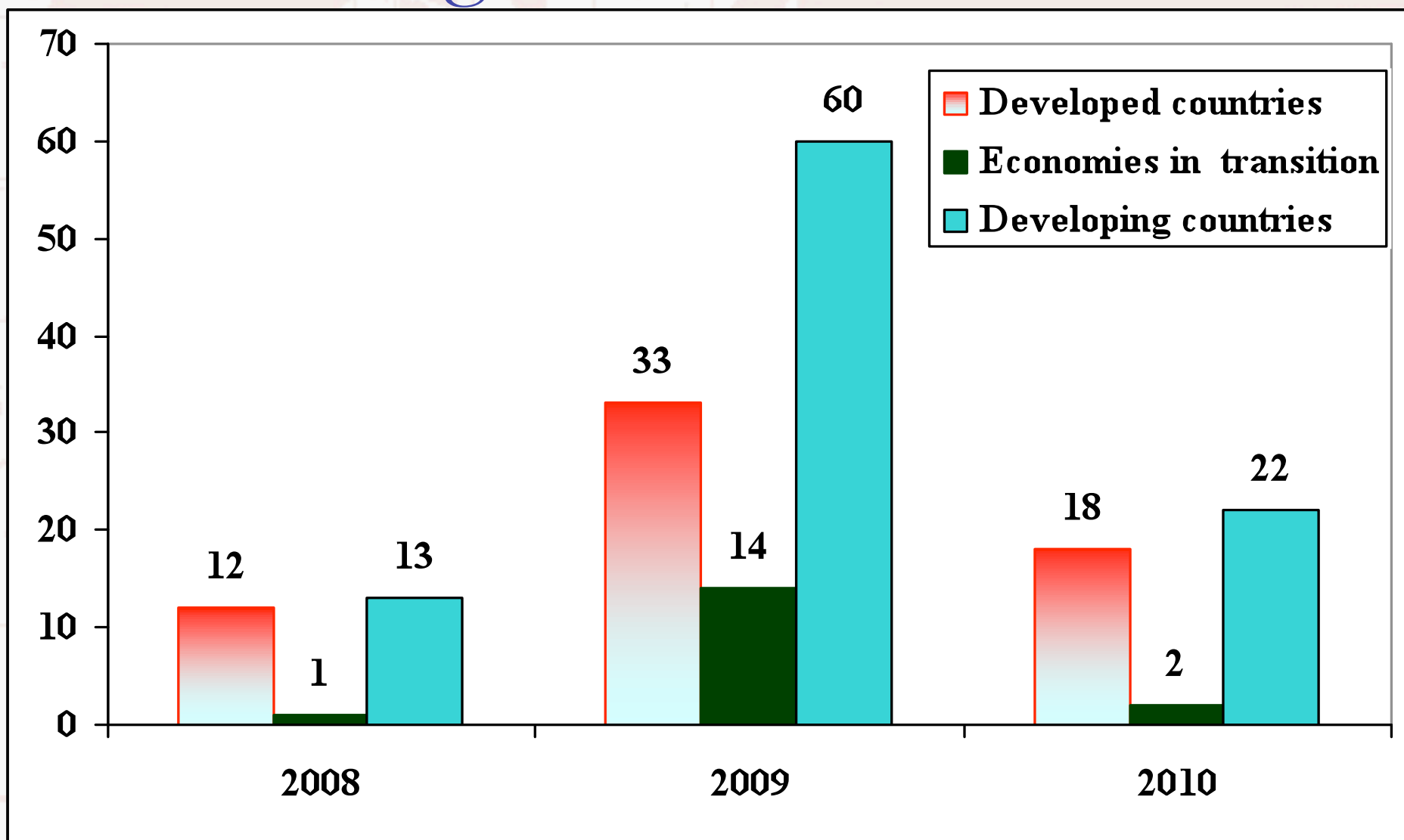


Growth by main country groups



	Per capita GDP growth rate			Change in growth rate	
	<i>2004-07</i>	<i>2008</i>	<i>2009</i>	<i>2009/2008</i>	<i>2009/2004-7</i>
World	2.6	0.9	-3.4	-4.3	-6.0
Developed economies	2.1	0.3	-4.1	-4.4	-6.1
Economies in transition	7.7	5.5	-2.6	-8.1	-10.2
Developing economies	5.7	4.0	0.1	-3.9	-5.6
LDCs	5.2	3.6	0.3	-3.3	-4.9

60 developing countries will see declining incomes in 2009

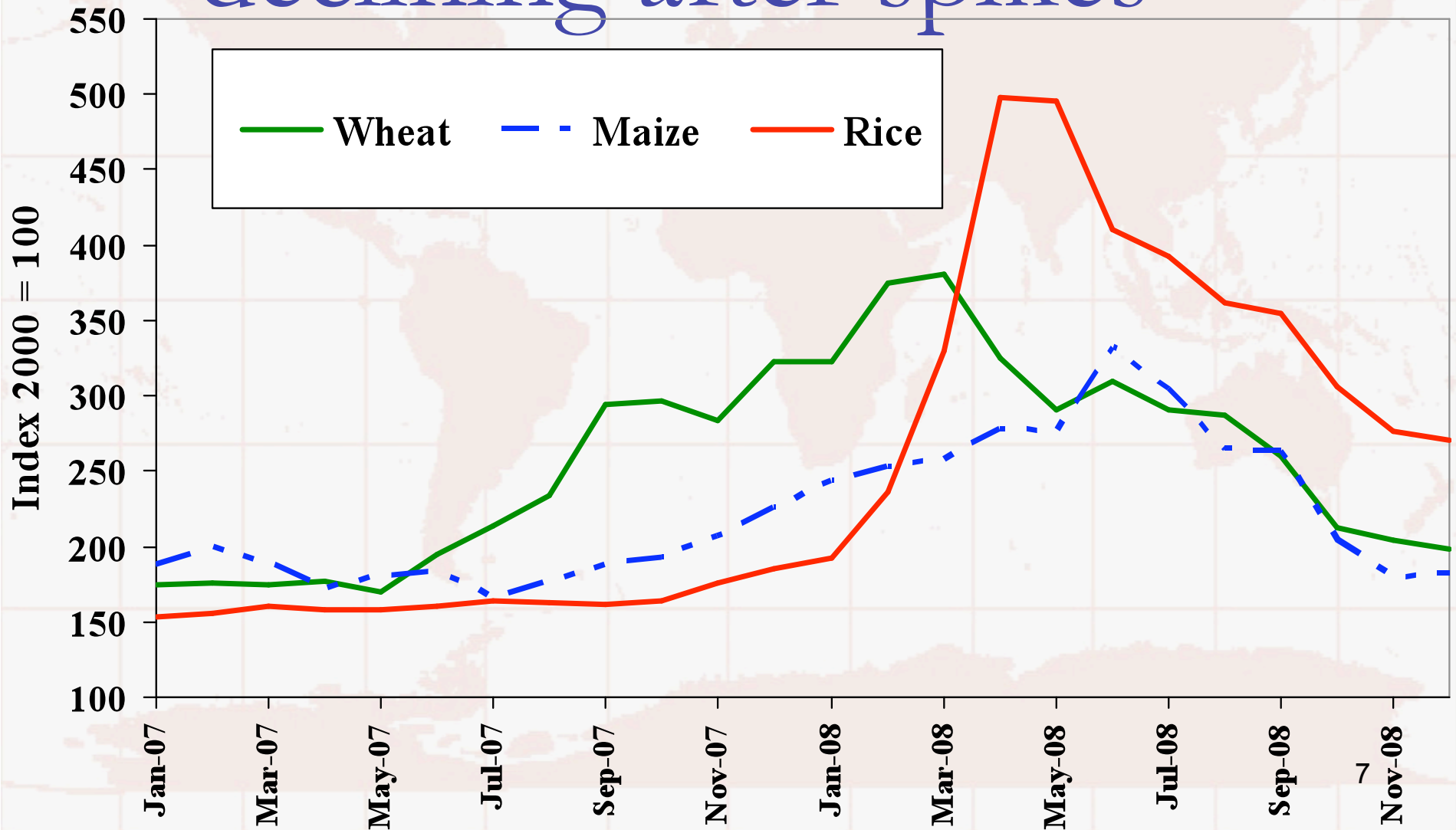


High commodity prices over

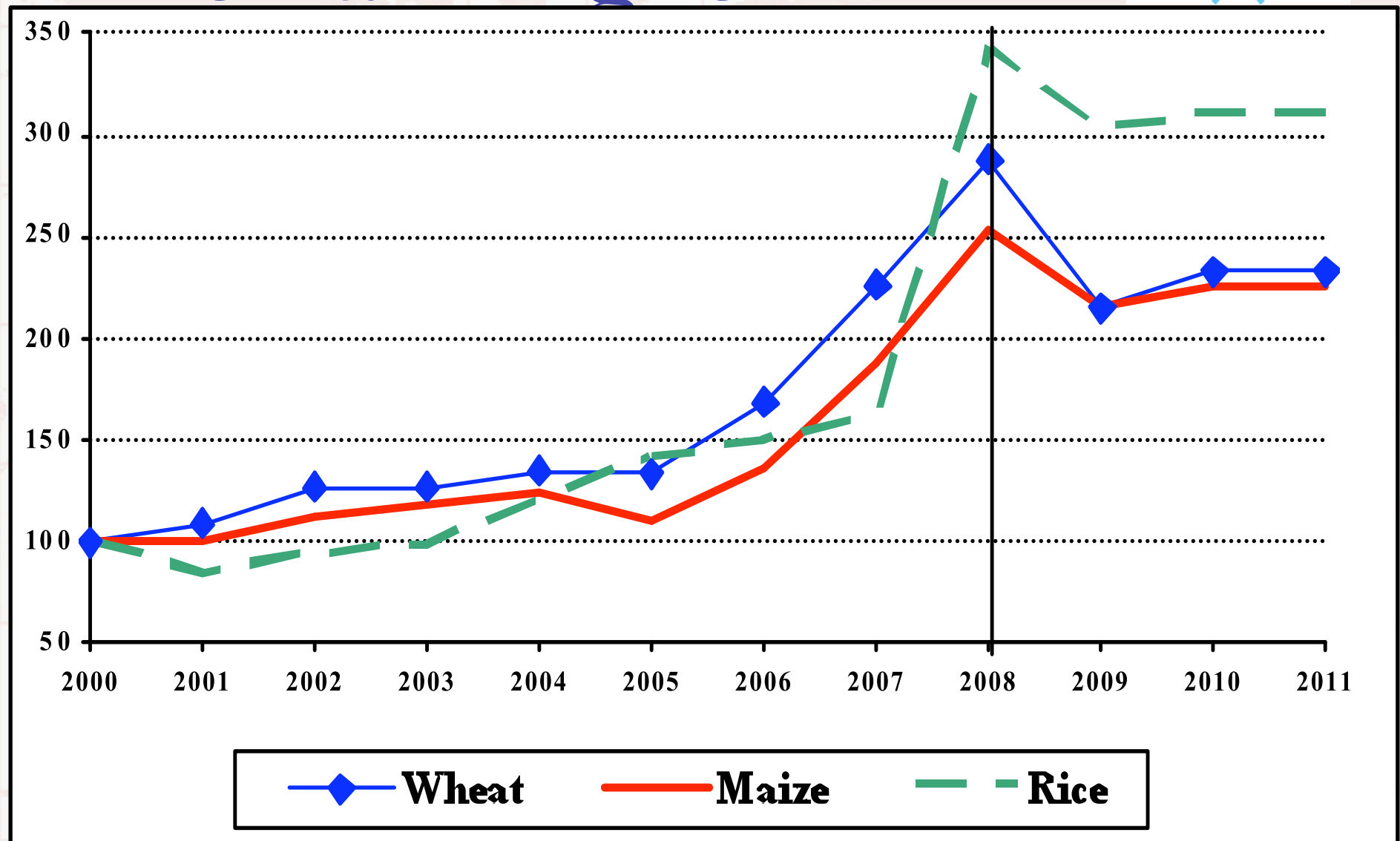


- Last 5 years: rare opportunity for many developing countries – including LDCs – to generate substantial financial resources from higher primary commodity exports for investments and growth – *largely over*
- *2008 price spikes* for energy and food due to increased speculation following flight from ‘Wall Street’ (finance) to ‘Chicago’ (commodity futures), other factors

World food prices declining after spikes



Food prices will remain higher

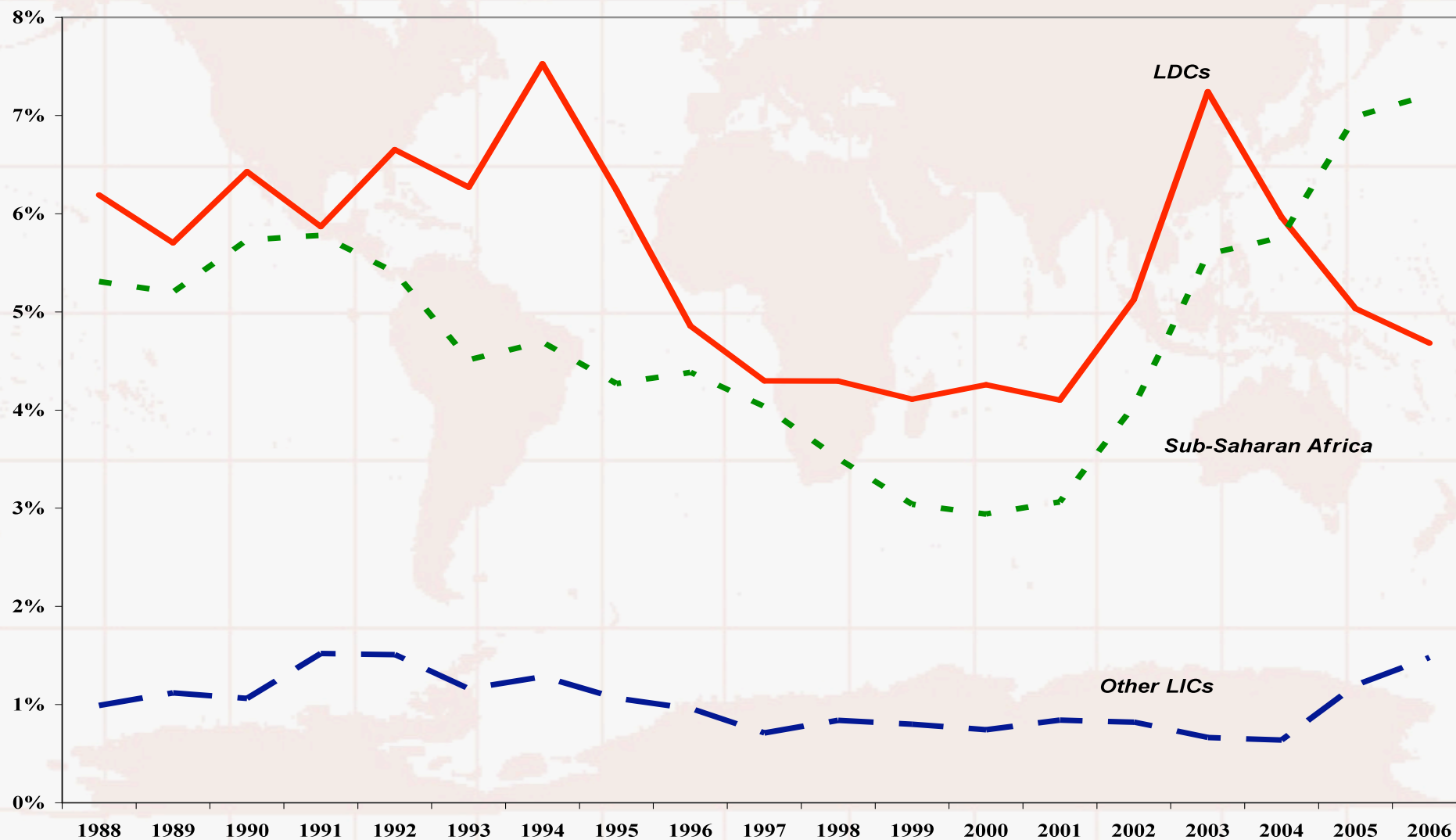


Trade impacts

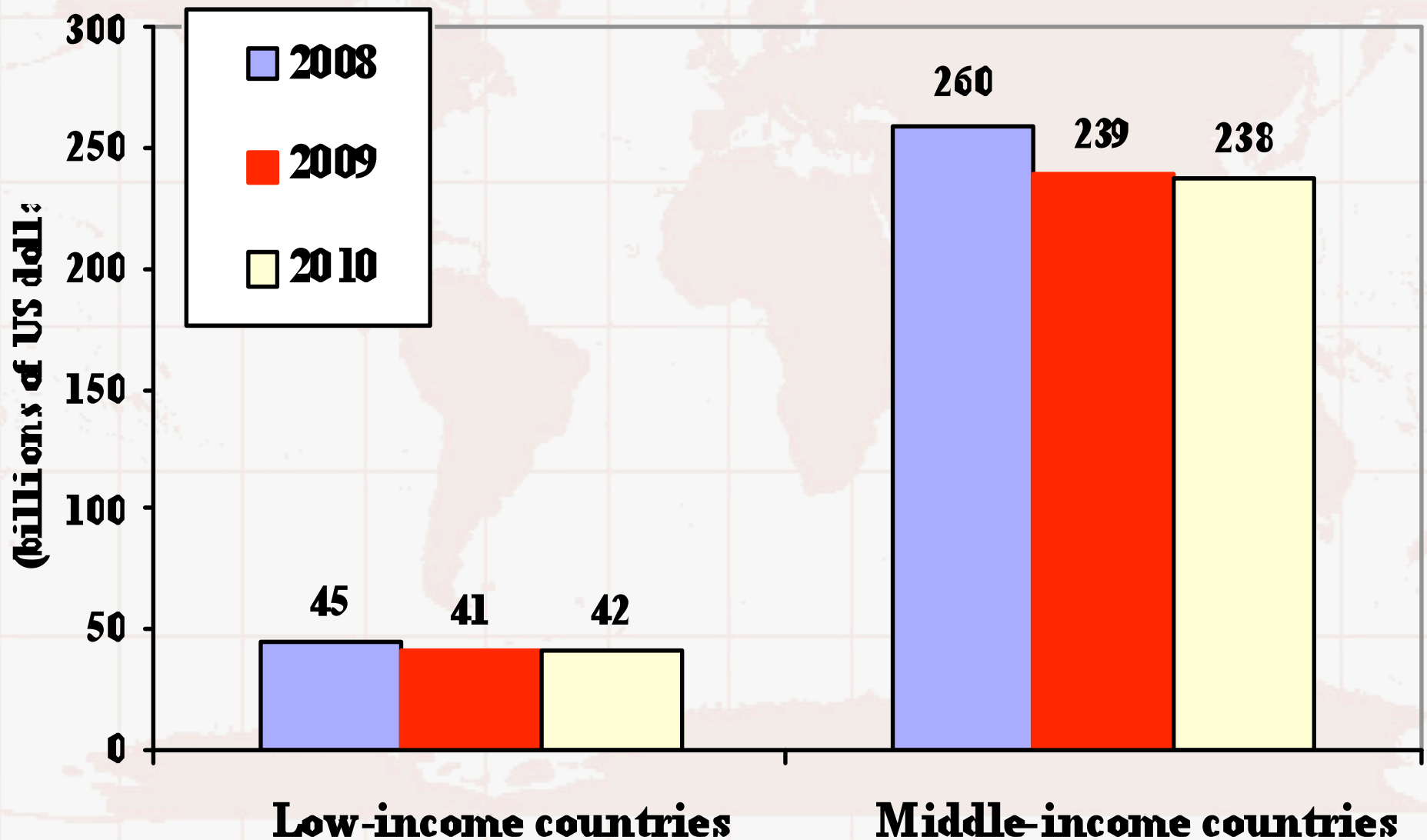


- Exports decline →
 all developing countries
- Terms of trade → **primary exporters**
- **Trade surpluses,**
 reserves may run down quickly
- But lower energy, food prices help
 net food and oil-importers

Aid flows unreliable



Remittances to developing countries, 2008-2010



Policy priorities



- *Contain spread of financial crisis*
 - Across borders (contagion)
 - To real economy (ensuring liquidity)
- *Reflate economy*
 - Fiscal measures (fiscal space needed)
 - Monetary measures (monetary space)
- *Appropriate regulatory reform*
 - National
 - International

Social impacts



- ILO: >200 m. more working poor
- ILO: Unemployment to rise by 51m
- ILO projections based on IMF 0811
- MDGs, IADGs, social spending at risk
- Rising social unrest
- US intelligence report:
crisis -- greatest security risk

Social impacts uneven



- Rapid increase of unemployment, underemployment, poverty, hunger
- Women worse hit than men
- More children malnourished, out of school
- Increased morbidity, mortality
- Reduced tax revenues → government social spending under pressure



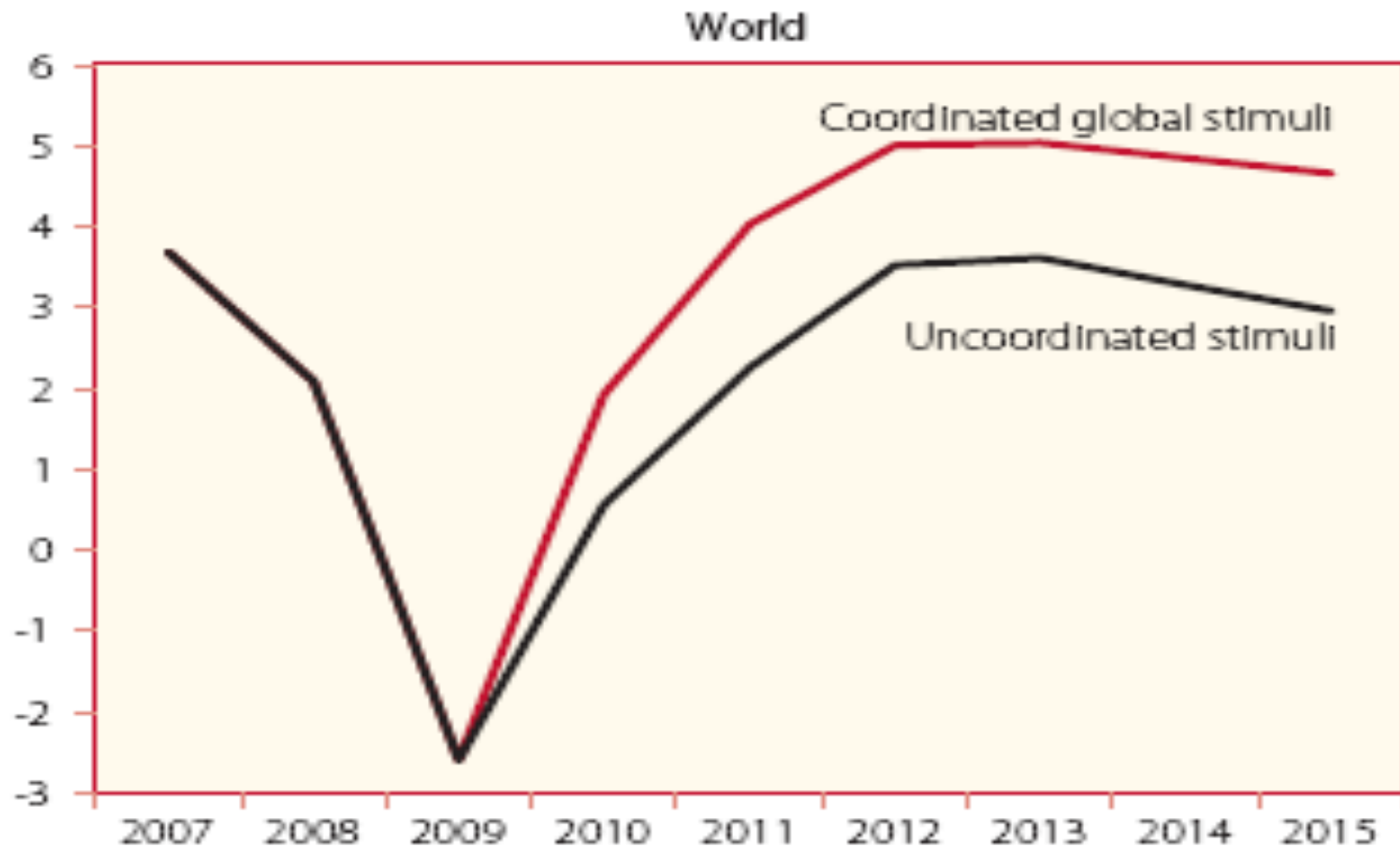
Why stimulus?

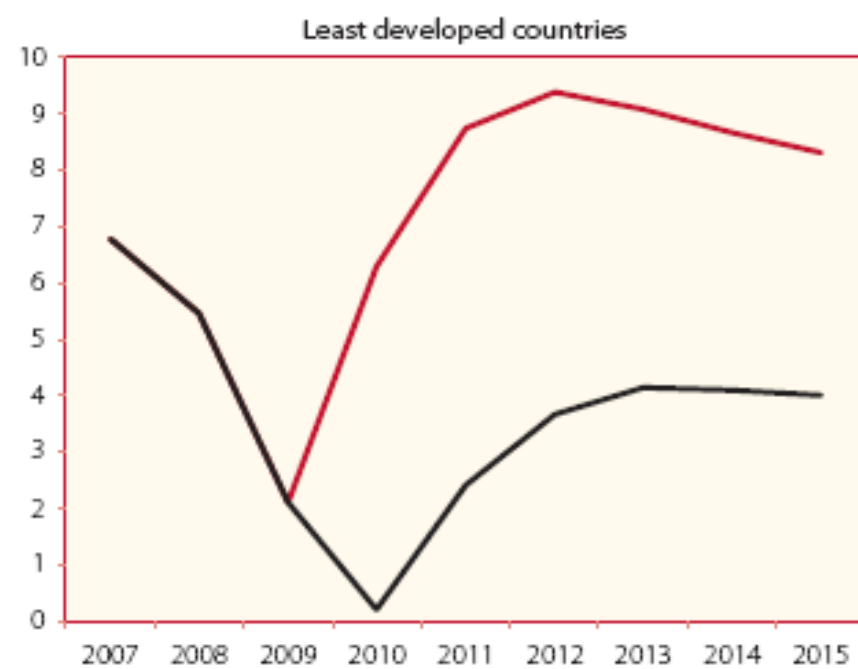
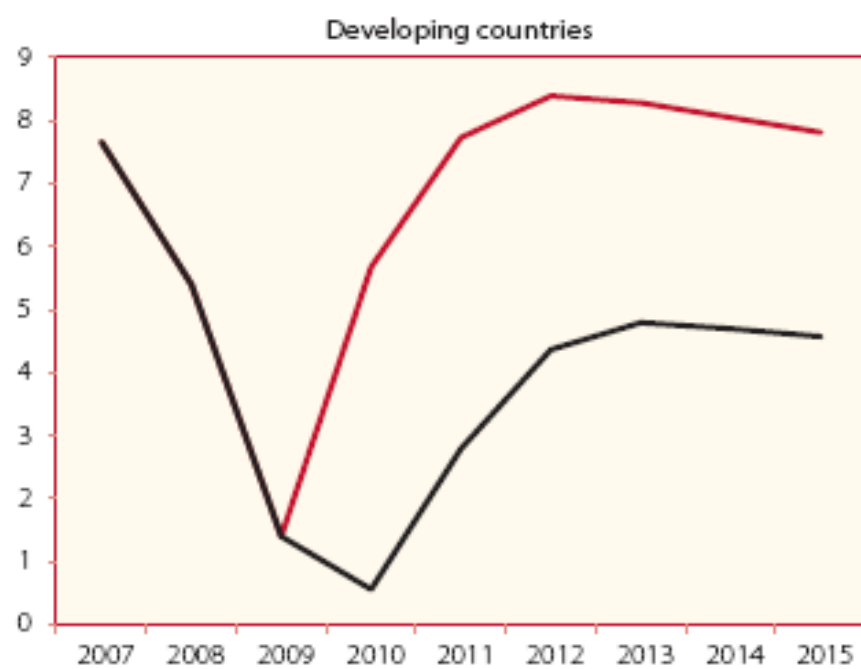
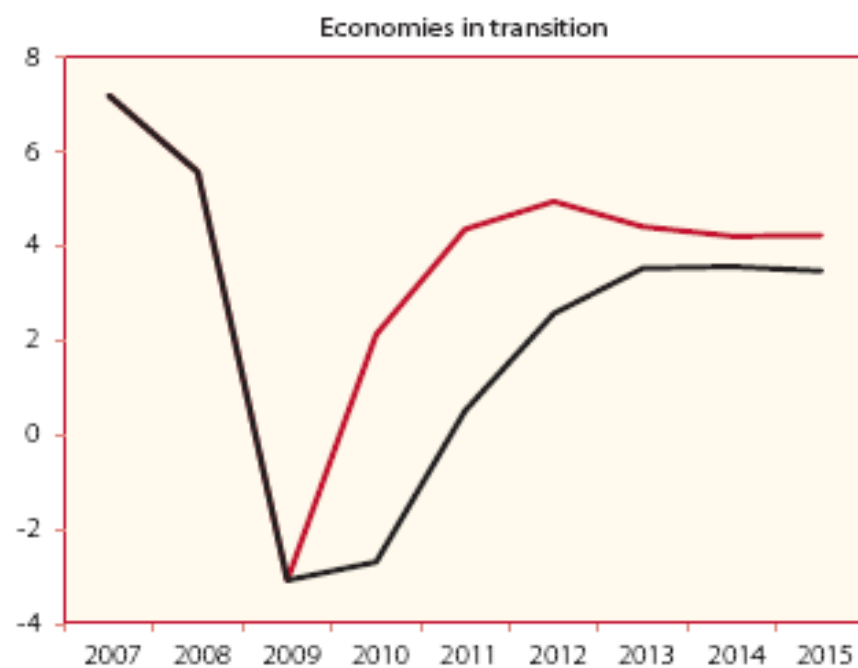
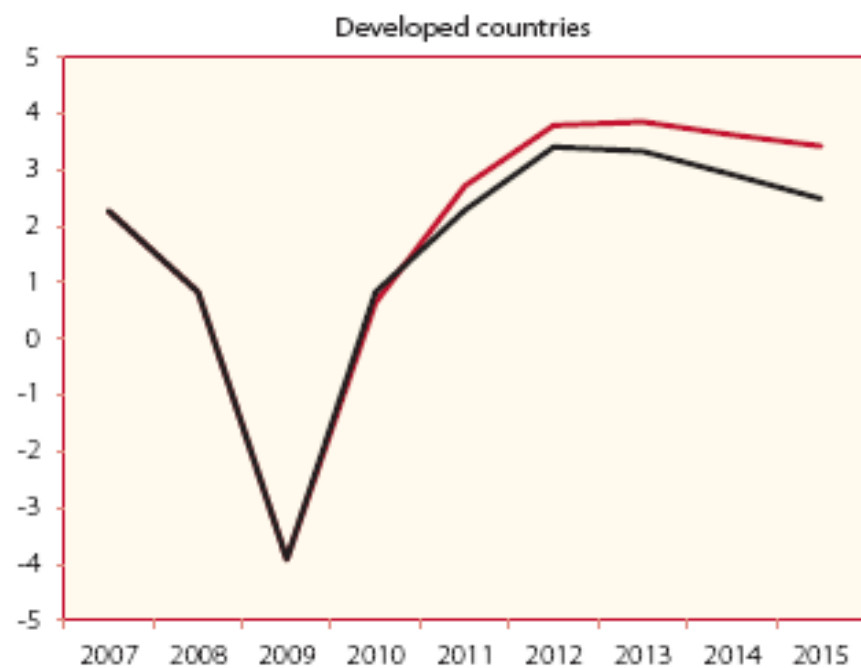
- Need to stimulate to *offset* weakened foreign demand for exports

[Problem: domestic productive capacities and capabilities lost with economic liberalization]

- Most countries' fiscal space limited
 - need more *policy space* to cope
- Need *domestic* -- not external -- financing
- Build + improve *infrastructure*
- Strengthen *social* services, protection

Global recovery with coordinated vs uncoordinated stimuli, 2010-2015



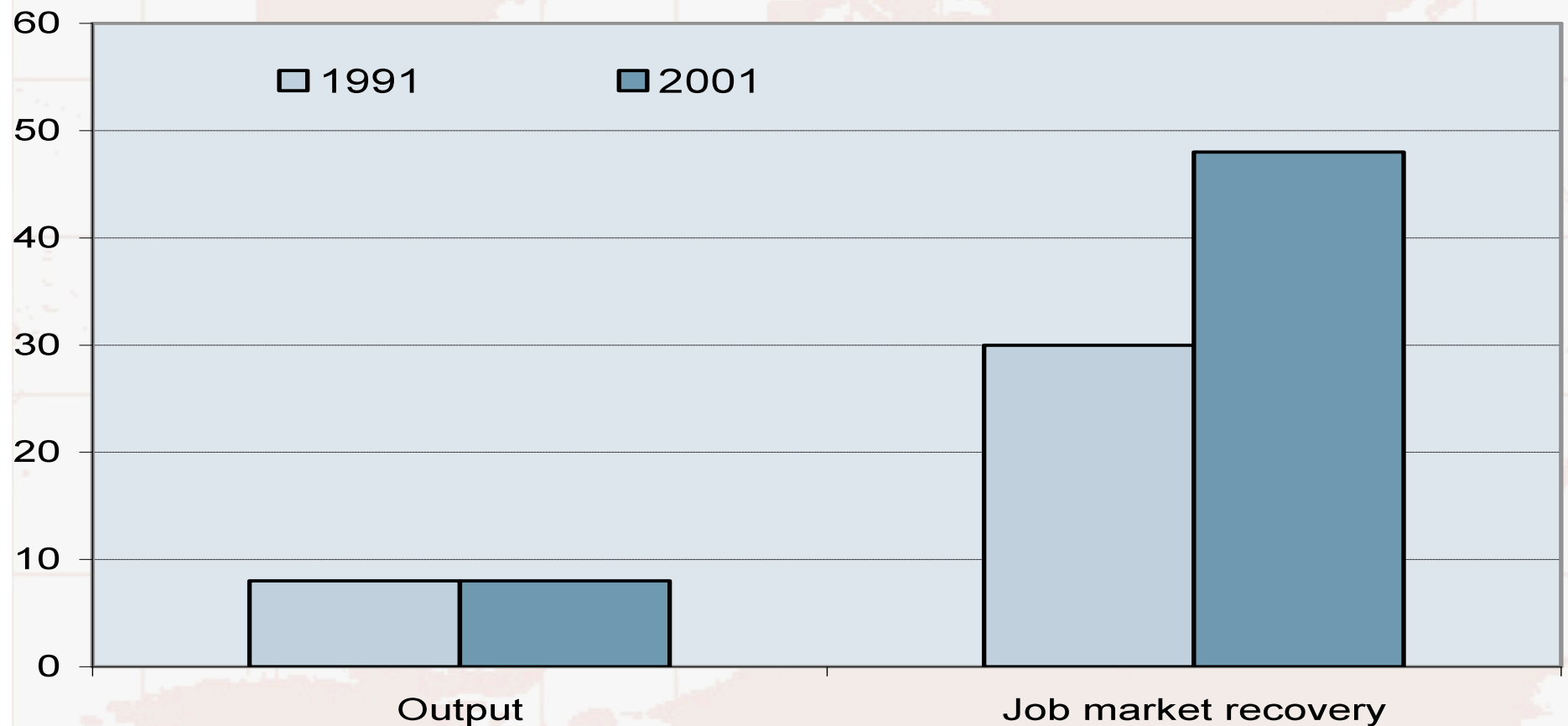


Source: UN/DESA, based on policy stimulations with the UN Global Policy Model.

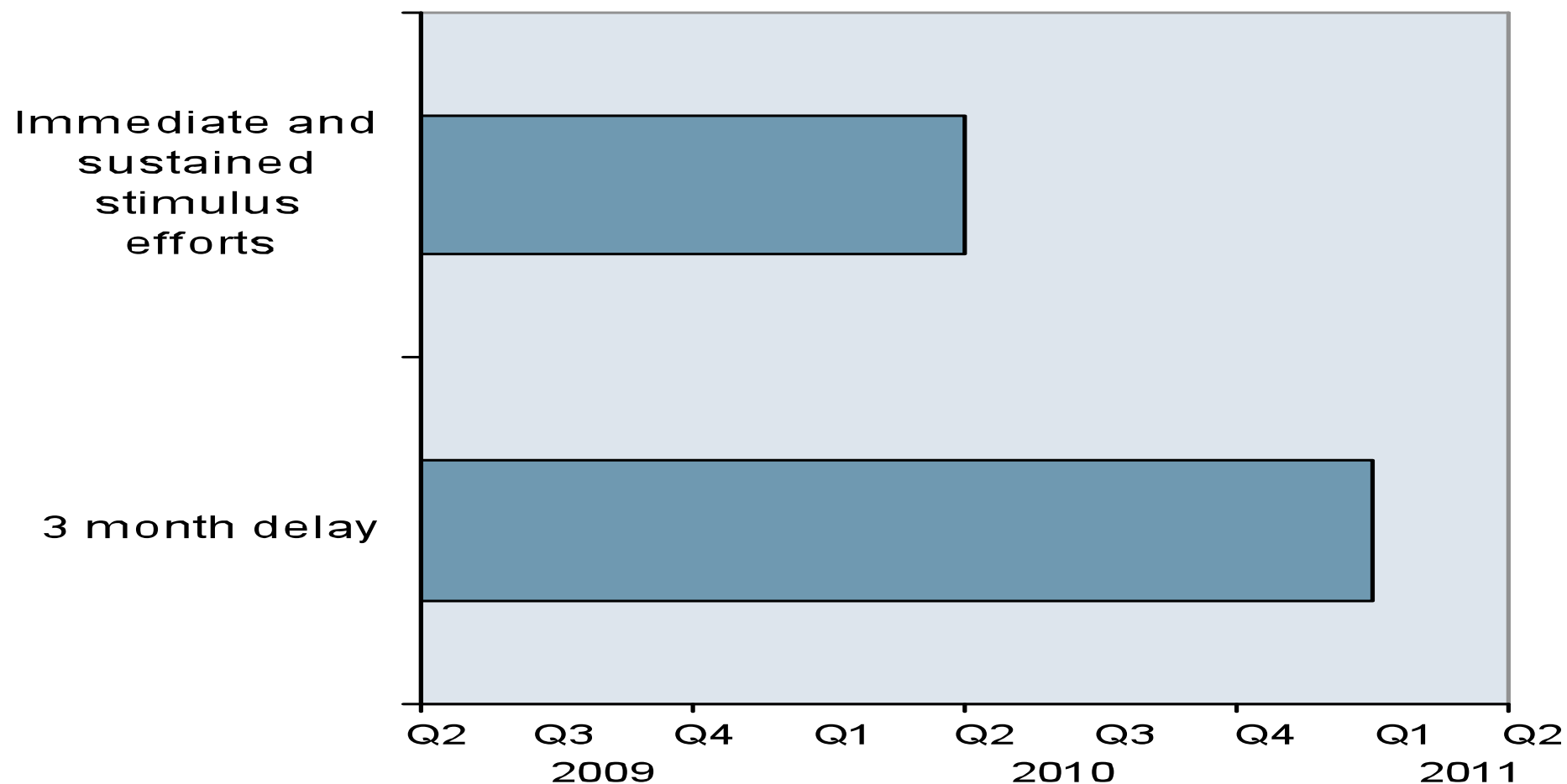
Output, jobs recovery lags, 1991, 2001



Duration of output recovery and job market recovery after the 1991 and 2001 US recessions (in months)



Lags delay recovery

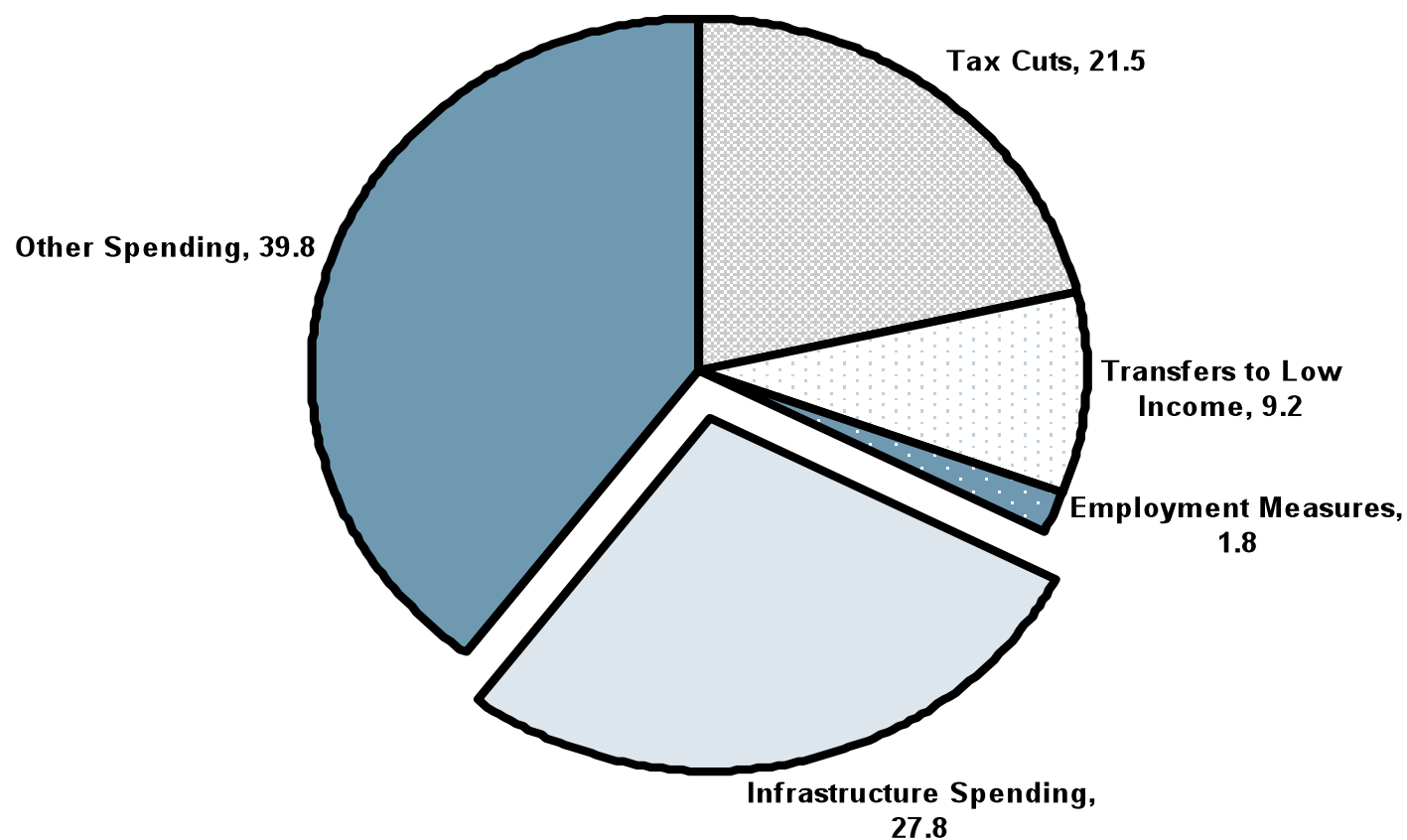


Social protection counter-cyclical

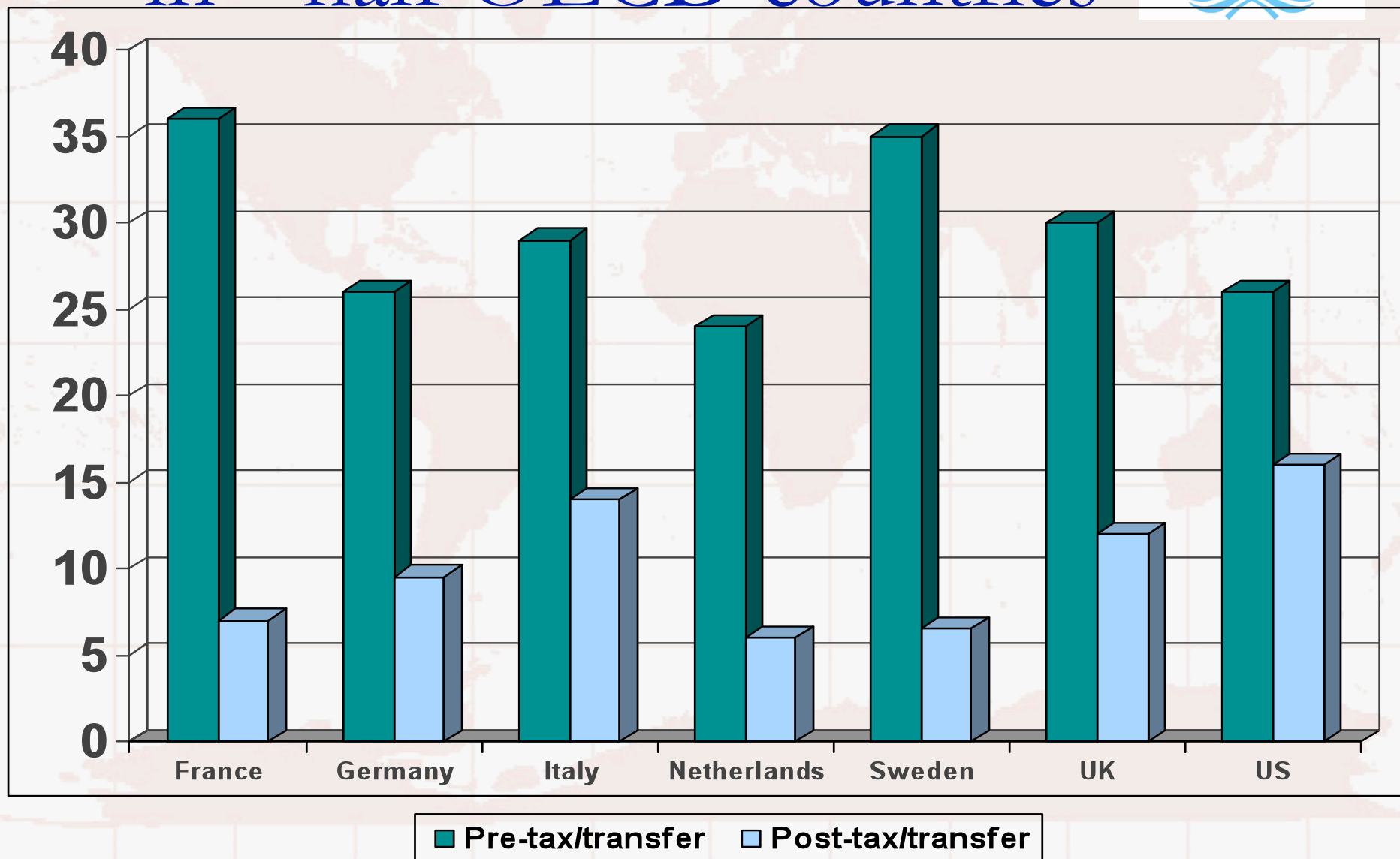


- *Employment* crucial for incomes, esp. for domestic demand, poverty reduction, multiplier effects
- Fiscal stimulus, esp. for *job creation*
- Conditional cash/income *transfers*
- *Universal* vs targeted social protection
- Social protection → demand maintenance

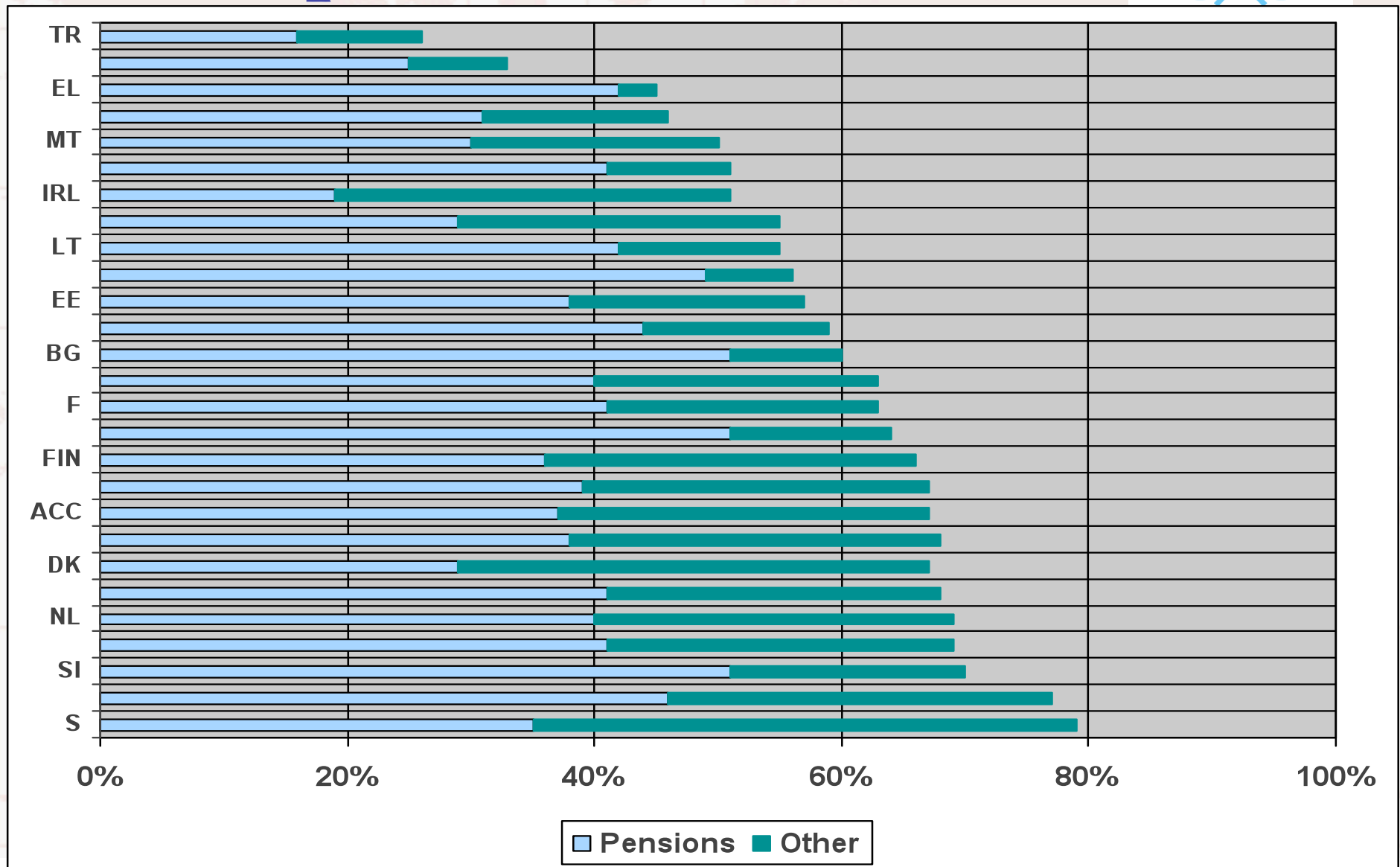
Social spending low priority (11%)



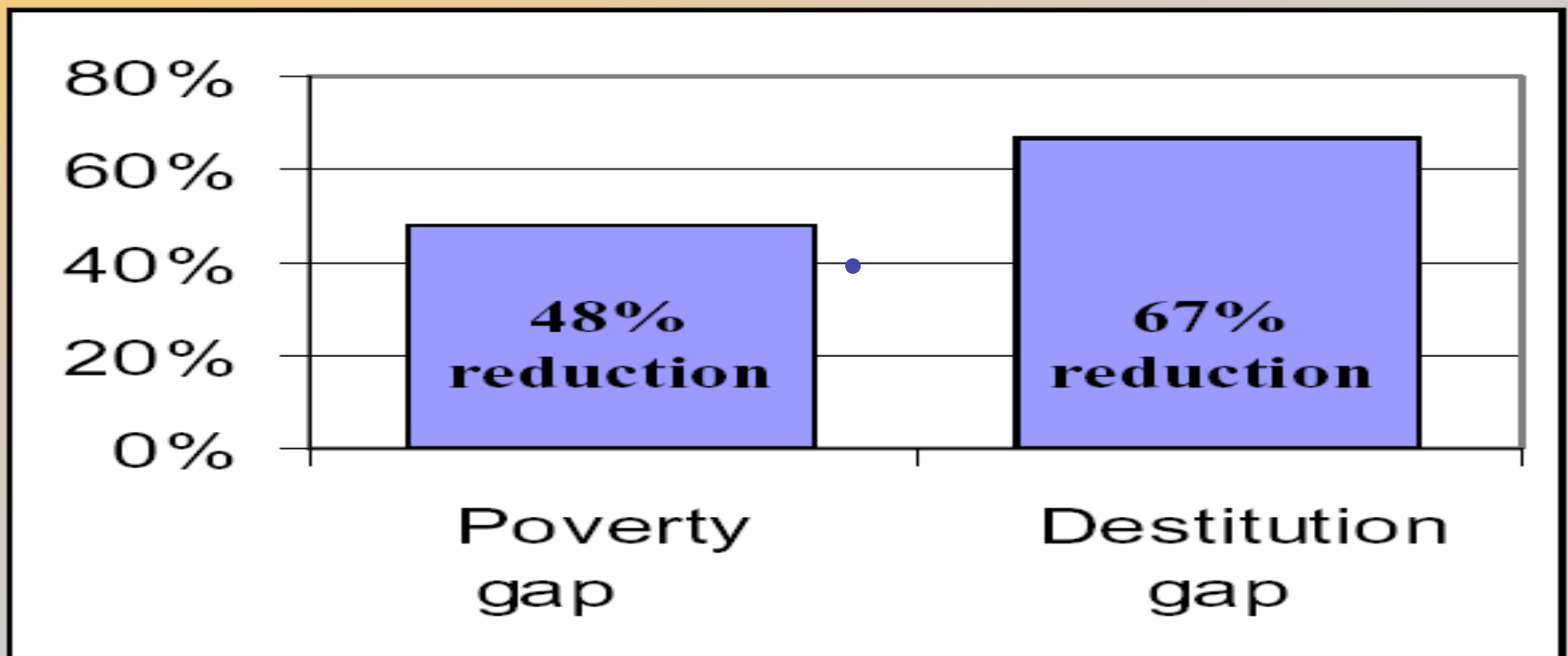
Social Transfers Reduce Poverty in >half OECD countries



Poverty risk reduced by social protection transfers



South Africa: Social Transfers Cut Poverty, Cost 3% of GDP



- Social protection rarely considered in PRSPs
- Social protection can help achieve MDG1 of halving poverty by 2015

Reducing Poverty Requires:



1. Employment-generating
macroeconomic and sectoral
policies
2. Progressive fiscal policies:
taxation, spending
3. Social Transfers
4. Remittances

Cash Transfer Schemes Expanding in Developing Countries



Type Of Transfers

Countries

Unconditional

Household Income Support

Chile, China, Mozambique, Zambia

Social Pensions

Argentina, Bolivia, Bangladesh, Brazil, Botswana, Chile, Costa Rica, India, Lesotho, Mauritius, Moldova, Namibia, Nepal, Samoa, South Africa, Tajikistan, Uruguay, Vietnam

Child/Family Benefits

Mozambique, South Africa

Conditional

Cash for Work

Argentina, Ethiopia, India, South Korea, Malawi, South Africa

Cash for Human Development

Bangladesh, Brazil, Colombia, Ecuador, Honduras, Jamaica, México, Mongolia, Nicaragua

Developing Countries' Social Transfers 1



- **Prevalence**

- > 25 developing countries
- Covering 150-200 million

- **Poverty impact**

- South Africa reduced poverty by 48%
- Mexico's *Oportunidades* and Brazil's *Bolsa Familia*: Reduced poverty by 12 points

Developing Countries' Social Transfers 2



- **Education:**

Positive enrolment and school attendance effects in Mexico, Brazil, Colombia, Bangladesh, Nicaragua, Zambia

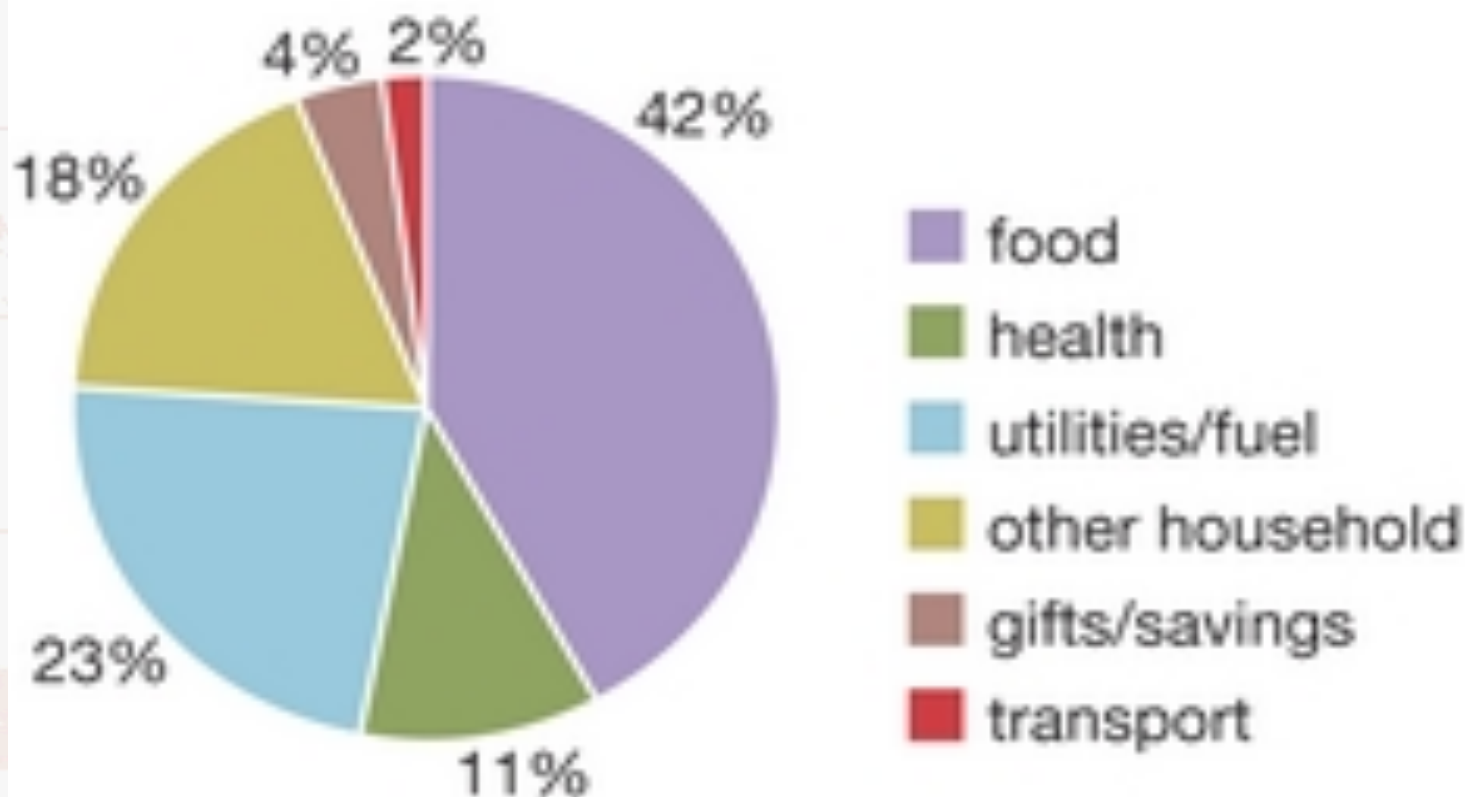
- **Health:**

Positive effects on height, weight of children and nutritional status in Colombia, Mexico, Chile, Malawi, South Africa

Old Age Pensions Support All Household Members



How older poor spend non-contributory pensions



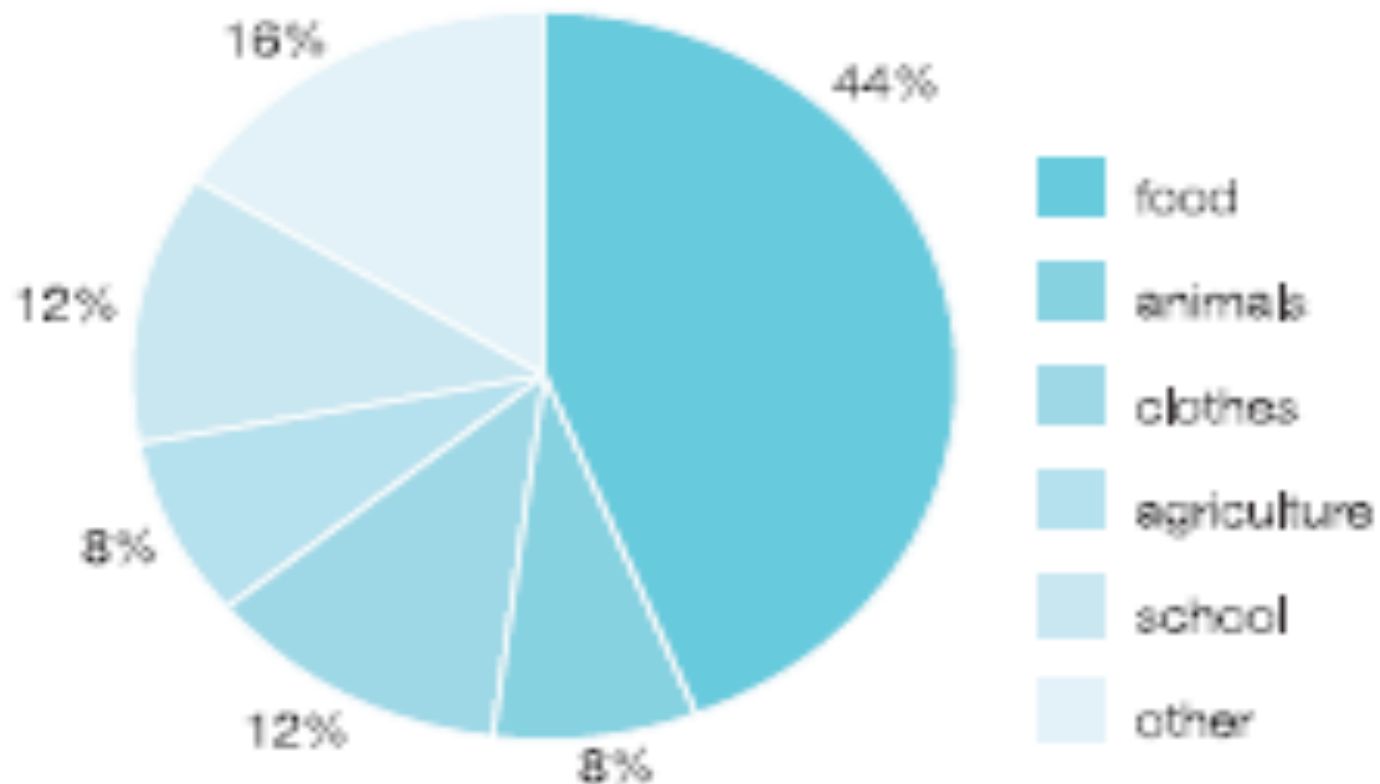
Old Age Pensions Support



All Household Members

How older poor spend non-contributory pensions

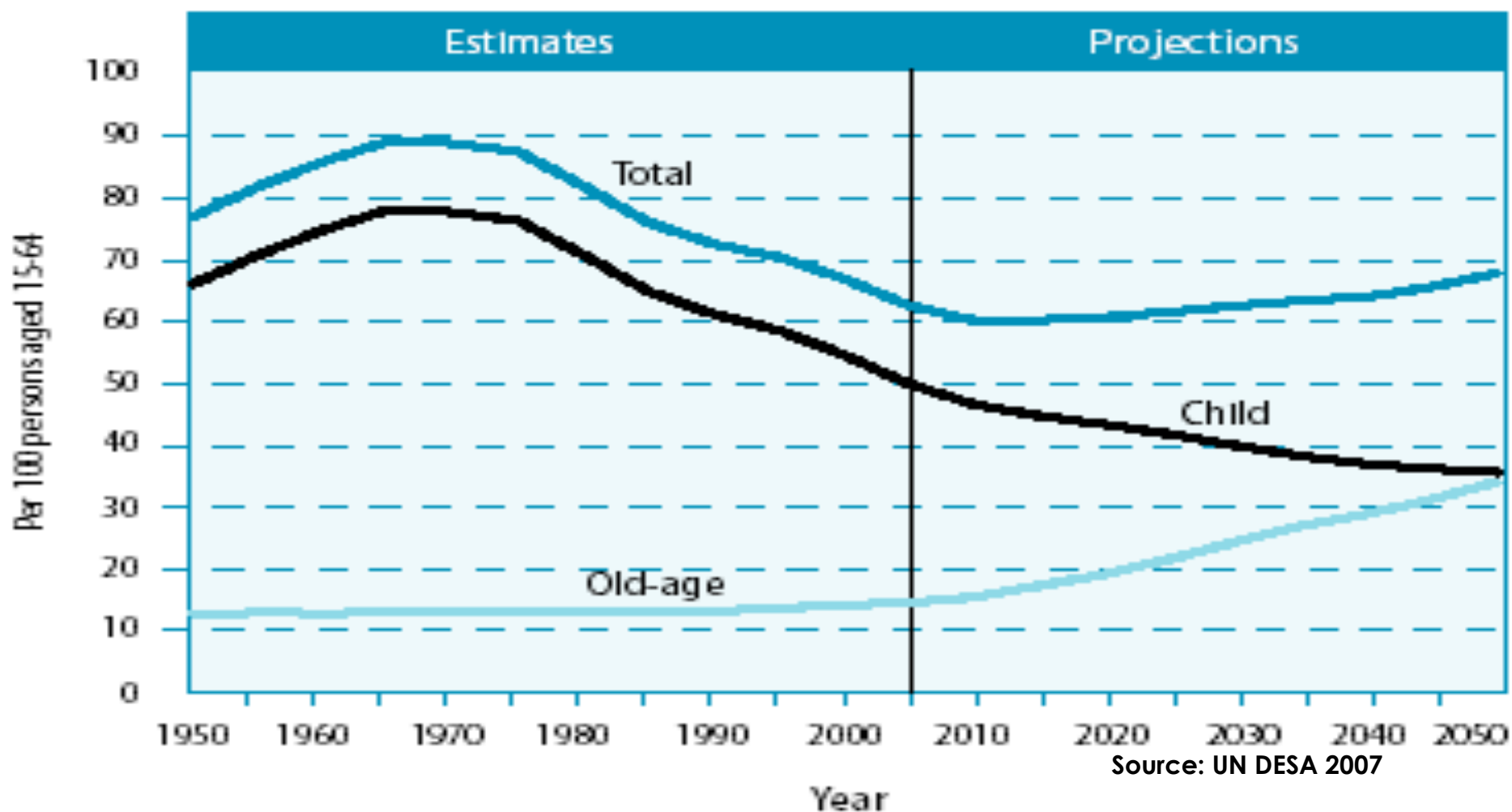
Zambia²



Old-Age Crisis? Changing dependency ratios



Child and old-age dependency ratios,
1950-2050, developing countries



Can Developing Countries Afford Social Protection?

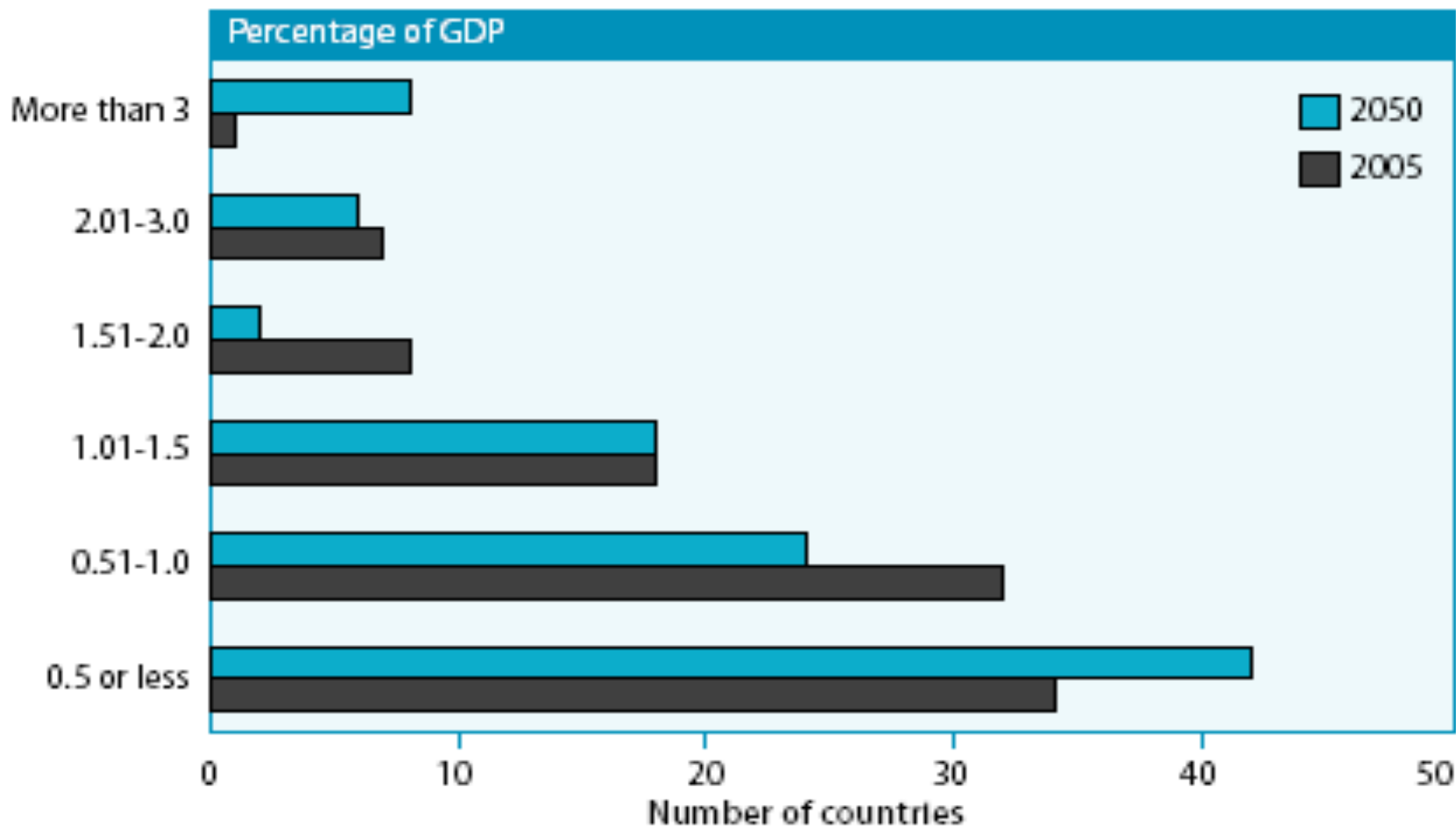


- Countries at same level of economic development differ significantly in terms of social protection, spending
- Reach of social protection systems depends on political attitudes:
 - to win electoral support
 - to reduce poverty
- Affordability -- issue of political will:
how much society is willing to redistribute
- Universal approach politically more
- Targetting (safety net) expensive, misses many

UNDESA: Cost of Universal Old-Age Pensions (\$1/day) in 100 countries



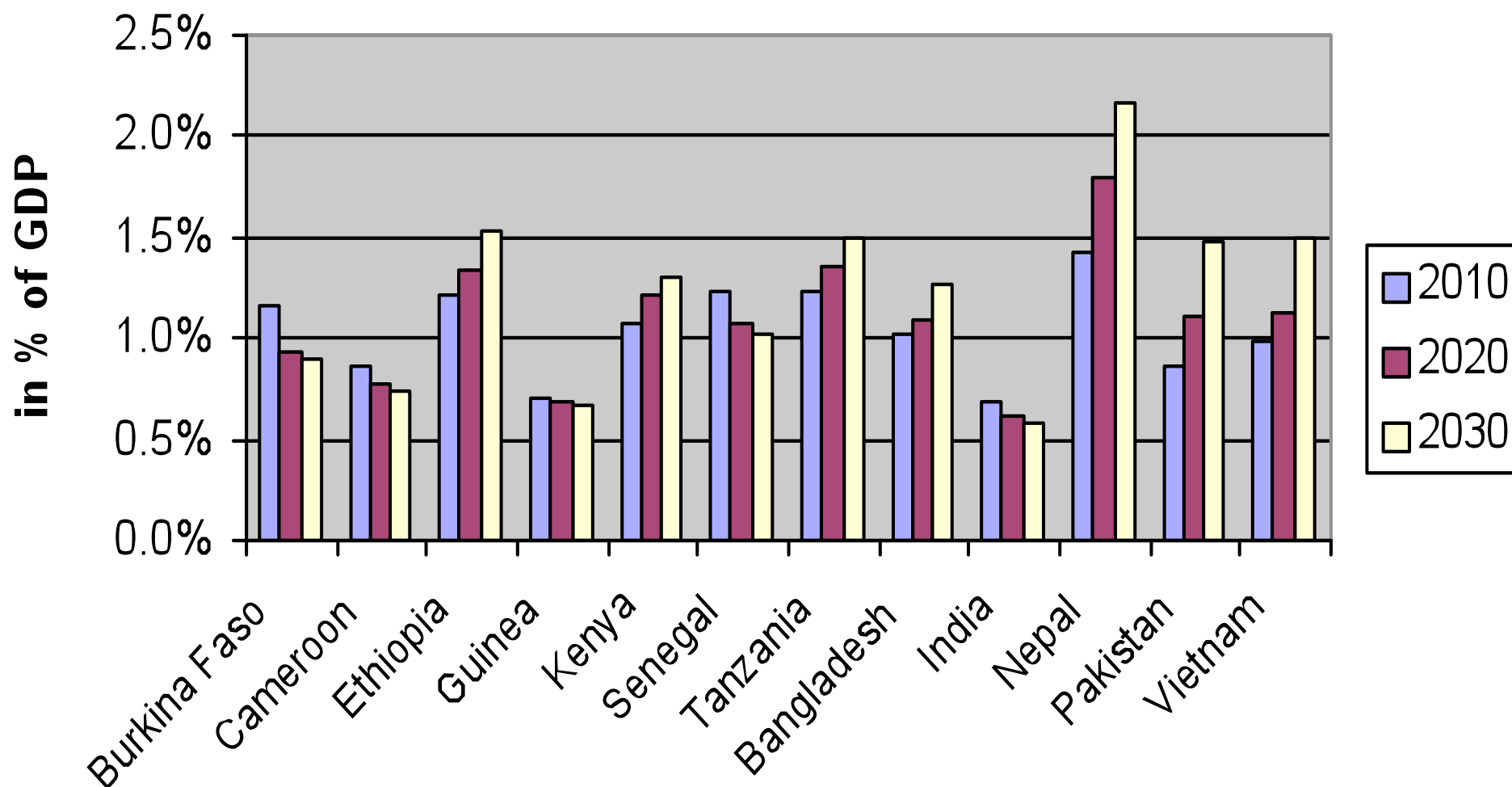
Simulated costs for developing countries of a universal social pension scheme designed to keep older persons out of extreme poverty, 2005 and 2050



ILO: Cost of Universal Old Age and Disability Pensions



(universal old-age 65+ /disability pension of \$1/day + 15% admin costs) (% of GDP)



Affordability, Financing



- Basic package of social transfers affordable with 1-3% of GDP in developing countries
- Social transfers grow with fiscal space available by increasing GDP, taxation or aid
- Billions lost through poor international tax cooperation, tax systems
- 70% of world inequality due to international inequalities

Constraints on developing country responses



- IMF fiscal requirement for stimulus
- IMF claims developing countries likely to fail
- Policy -- including fiscal -- space constrained
- Monetary policy less effective, worse with independent central banks, fiscal authority
- Systemic, market, institutional pro-cyclicality
- Lost productive capacities due to openness₃₆

Enhancing fiscal resources



- Much greater tax revenue needed;
lower tax rate on lower incomes in
developing countries
- Taxation should be more progressive
- International tax cooperation urgent
- But will need time and political will
- Urgent: borrowing, ‘monetary easing’

International responses



- UN, BIS forecasts more accurate than others; IMF, WB upbeat till late 2008
- IMF, WB also marginalized by G7, etc
- IMF discouraging strong fiscal stimulus by developing countries without surplus
- G7 → G20: more inclusive? legitimate? crisis-, but not developmental or equitable
- London \$1.1 trillion -- costless: loans + SDRs
- PGA (Stiglitz) Commission of Experts
- UN June 09 summit on crisis + impact on developing countries

Thank you



Please visit UN-DESA www.un.org

G24 www.g24.org and PGA www.un.org/ga/president/63/ websites

- Research papers
- Policy briefs
- Other documents

Acknowledgements: UN-DESA (DPAD, DSPD), ILO (IILS)