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The Human Impact of the Financial Crisis on Poor and Disempowered People and Countries

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In responding to this financial market crisis much attention has been on the global financial system and its major players and markets. But as this crisis of historically unprecedented magnitude and scope unfolds we need to turn our attention to its implications for people, particularly for poor people in poor countries. In fact, when crisis strikes, whether it is an economic meltdown like what South Korea experienced in 1998 or a natural disaster in rich countries such as Katrina in the United States in 2005 or the Kobe earthquake in 1998 in Japan it is the poor and the disempowered whose lives are most thrown off balance and are the slowest to recover. My remarks today are about these implications and the need for safeguards against such downside risks that threaten the security of human lives – human security. I will start by setting out the types of impacts that financial crisis could have before commenting on policy responses.

Impacts on developing countries – financial contagion, global recession, the human consequences

Financial contagion effects:

First, there are contagion effects on financial markets in developing countries. These are already being felt. There has been a 25% fall in the Brazilian real against the dollar this year so far[1]. The Philippine Central Bank announced that FDI inflows for the first 7 months of 2008 were 60% less than what they were at this time in 2007[2]. The Bombay BSE fell 7% on October 10th, culminating in its biggest one week drop in almost 18 years.[3] Such shocks threaten to reverse the gains of the last several years in growth and development. But the important point is that these are contagion effects of financial turmoil originating elsewhere that these developing countries have little control over even though they have been implementing sound macroeconomic policies. In fact, they were doubly diligent, being aware of the need to protect themselves against the risks of global financial instabilities which were demonstrated to be real

[1] From *The Economist* "Emerging Markets: A Taxonomy of trouble" Oct. 25 print edition, p.87
[2] $960 million so far in 2008 against $2.4 billion in the first seven months of 2007; From http://www.manilatimes.net/national/2008/oct/11/yehey/top_stories/20081011top2.html
[3] From http://www.businessworld.in/index.php/Markets-Finance/BSE-Sensex-Tumbles.html

over the last few decades. So, many countries have taken measures such as building up huge reserves and surpluses and yet in spite of this they are hit.

Global Recession effects

Though these contagion effects are important, particularly for such emerging market countries as Brazil and India, the more widespread and serious impacts of the financial crisis for developing countries would not be through contagion effects but through the global economic recession. The impact of the real economy and on the lives of people would be even more serious than the impact on the financial market. Such impacts will be felt by all developing countries, not just emerging economies which are more integrated into global financial markets. The impact of the global recession will be felt by the poorer countries which are considered to be somewhat marginalized and poorly integrated into the global economy.

The ways in which these countries will be negatively affected are several. Falling commodity prices will be serious, and that is particularly important I think for Sub-Saharan African countries whose economies have experienced positive growth and development over the past several years, buoyed by the commodity price boom. Other effects will be the contraction in markets for their exports due to global economic downturn, a possible decline in ODA as donor countries seek to find savings in their budgets to finance rescue plans, declines in many forms of private capital flows and including and especially remittances. Already the IDB projects that the value of remittances to Latin America for 2008 will begin to decline, reversing the rising trend of the last several years.[4] In short, a global recession is likely to set off a severe economic retrenchment in some of the poorest countries in the world and I will return to these issues later.

Human consequences

We now go beyond these economic aggregates and consider the impact on human lives. Those consequences are often hidden from much economic analyses that drive policy choices.

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[4] Remittances to Latin America and the Carribean are expected to grow to $67.5 billion in 2008, up from $66.5 billion last year. However, adjusting for rising inflation means that the real worth of remittances this year will be 1.7% less than last year; http://www.iadb.org/news/detail.cfm?Language=English&id=4779

However, many studies on the impact of the 1990s Asian economic crisis or the 1980's structural adjustment programs by scholars such as Elson, Beneria and others and by organizations such as UNICEF and CEPAL have shown the complex repercussions of economic crises and inappropriate government policy responses on people's lives.

First of all, unemployment rises and household incomes drop. Households cope to meet basic needs through a variety of mechanisms such as sending out children or the elderly to work, reducing consumption of food and other essentials with consequenes for health, withdrawing children from school and so on. Such coping strategies have not only immediate consequences for well being of the individual and family, but undermine longer term development for the society as a whole.

But the impacts are more complex. There is often contraction in government social spending, particularly on essential services such as primary health care, education and transport as governments revenues plummet. Macroeconomic policy reforms aiming at balancing budgets and at stabilizing the economy end up unbalancing human lives. The experience of Nicaragua is quite a startling example of this. A 400% devaluation in 1991 lead to a 360% increase in prices to the point where a median salary could no longer by a basic basket of consumption goods.

Distributional and Gender Dimensions

The distributional impacts of these recessions are highly skewed. The poor and the disempowered are the most vulnerable. For example, studies of the East Asian crisis show a rapid rise in poverty and worsening of health and education indicators due to both falling incomes and reduced services. In Indonesia, UNICEF studies found a sharp reduction in the use of public health services by people who could not afford the fees or found that services began to run out of essential supplies such as drugs.

There is a particularly important gender dimension which requires analysis of the domain of non-market work and social reproduction. Women bear the brunt of crisis because of the paradigm of the male bread-winner that prevails all over the world across cultural divides, from Cuba to Japan. When job retrenchment takes place, the tendency is to protect employment for men and compromise on women's jobs. But women's incomes are essential for family survival, especially when they are heads of households and/or in poor families. They cannot afford to stop working so they end up in jobs with much worse and often unacceptable conditions.

Another generalized impact, which is often neglected in economic analyses, is the impact on the unpaid care work that falls mostly on women. When people stop going to doctors for healthcare, they stay ill for longer, and have to be taken care of at home, invariably by women, adding to the workload of women who carry much of the burden of care work. This care work for 'social reproduction' is not part of the market economy and is not counted in the GDP. If you try to estimate the monetary value of such care work – the work of social reproduction - it comes up to something like 2/3 of the market economy[5]. There is an important relationship between the work of social reproduction and market work since there are only 24 hours a day. Demand for unpaid work of social reproduction puts pressure on the time available for paid work in the market economy. Many studies of the impact of the 1990s Asian financial crisis and 1980s structural adjustment policies document consequences such as reduced incomes as women have to go out of work or take up less remunerative and part time work, or cmake ompromises on time devoted to caring for children.

Policy responses:

As economic crises spread, what should be the policy responses? We must learn the lessons of the experience of the Asian crises and structural adjustment responses that favoured orthodox stabilization policies with massive human costs.

To protect the poor and vulnerable, especially women, we need to pay particular attention to:

- maintaining development aid budgets;
- maintaining commitments to global priorities such as combating the global warming crisis or the food crisis or the energy crisis;
- designing appropriate macroeconomic policies. Professor Stiglitz among other eminent economists have challenged orthodox prescriptions and recent studies critique restrictive expenditure ceilings and inflation targetrs;

[5] UNDP, Human Development Report 1995

- maintaining support to social priorities so as not to compromise on long term development and to offset the unequal burden on women. Priorities should not only be on infrastructure projects which create jobs for men but social investments in care services which reduce the pressure on unpaid work.

Lessons from Argentina could be instructive in thinking about policies that would stimulate the economy and could achieve greater equity. This country managed to recover from the 2001 crisis with an annual growth rate of 8% from 2002, and moreover reducing poverty from 56% to 20% and unemployment from 30% to 7%. Their policies included among others, pro-poor public expenditure policies focusing on long-term development priorities such as building infrastructure and human investments. Such policies are a departure from the Washington Consensus policies of the 1980's and 90's.

Conclusions

The scope of response requires provisions and policy space that allow developing countries to adopt stimulus and recovery plans that provide stimulus and sustained recovery, but also builds in safety nets for the poor, vulnerable and disempowered people, households and countries. The needed response clearly points to pro-cyclical policies as have been adopted in the US and Europe. We cannot accept the double-standard of counter-cyclical measures for rich countries and pro-cyclical measures for poor countries, or, Keynesian economics for rich countries and neo-liberal economics for poor countries.

The current financial turmoil has had important contagion effects in developing countries, but by far the greatest threat to human security comes from an economic recession. These threats stem from global financial insecurity, risks that go beyond what any country and household can tackle. The current system in fact shifts the burden of global financial risks from players in global markets to poor countries and poor households.

Neither human security nor national economic stability can be assured by national policies alone and require a global response. The inter-active debate in the UN is welcome. Addressing this financial crisis requires consideration of diverse alternatives. No single country nor institution nor perspective has a monopoly on knowledge. Today, important expertise and knowledge about economic management resides in developing countries, from Brazil to China to Korea. The UN including its many agencies and organizations from DESA, UNCTAD, UNICEF to UNDP has also contributed many analyses and ideas on the challenges at stake.