Economic & Social Affairs

THE GLOBAL SOCIAL CRISIS

Report on the World Social Situation 2011

United Nations

The Global Social Crisis

During 2008-2009, the world experienced its worst financial and economic crisis since the Great Depression of the 1930s. The crisis followed the effects of the food and fuel price hikes in 2007 and 2008. In 2009, global output contracted by 2 per cent.

This *2011 Report on the World Social Situation* reviews the ongoing adverse social consequences of these crises after an overview of its causes and transmission. While a deeper, more prolonged global recession has been averted by coordinated stimulus measures, the recovery is nonetheless fragile and uneven. The economic slowdown has reduced social spending in most developing countries while the turn to fiscal austerity has undermined social spending in developed countries.

The *Report* points to the rapid rise in unemployment and vulnerability, especially in developing countries without comprehensive social protection in the wake of the global economic crisis. Tens of millions more people fell into, or were trapped in, extreme poverty because of the global crisis, while the number of people living in hunger in the world rose to over a billion in 2009, the highest on record.

The global economic downturn has had wide-ranging negative social outcomes and set back progress towards achieving the internationally agreed development goals, including the Millennium Development Goals. 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 will continue to affect billions for years to come.

The *Report* strongly underscores important lessons from national responses to the global crisis, the importance of inclusive social policies and the need for universal social protection. A key conclusion is that countries need to be able to pursue countercyclical policies in a consistent manner.

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The Global Social Crisis

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United Nations
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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.

SHA ZUKANG
Under-Secretary-General for Economic and Social Affairs

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Explanatory notes

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 ninety-five 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, 2010b, 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 official development assistance. The countries were affected to different degrees depending on their economic structure and vulnerability to shocks.

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).

Together with the Bank for International Settlements led by its then economic adviser of William White, the United Nations did raise 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 and the IMF underestimated the impact of the underlying risks for the global economy: the IMF was projecting global growth of 2.2 per cent for 2009 in November 2008, while 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.

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 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 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

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.

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). 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 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]

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.

3 See General Assembly resolution 65/1.

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.

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-

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).

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.

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

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).

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.