



International  
Labour  
Office

# **ECONOMIC CRISIS AND SOCIAL IMPACTS: Are We Prepared? What Can We Do?**

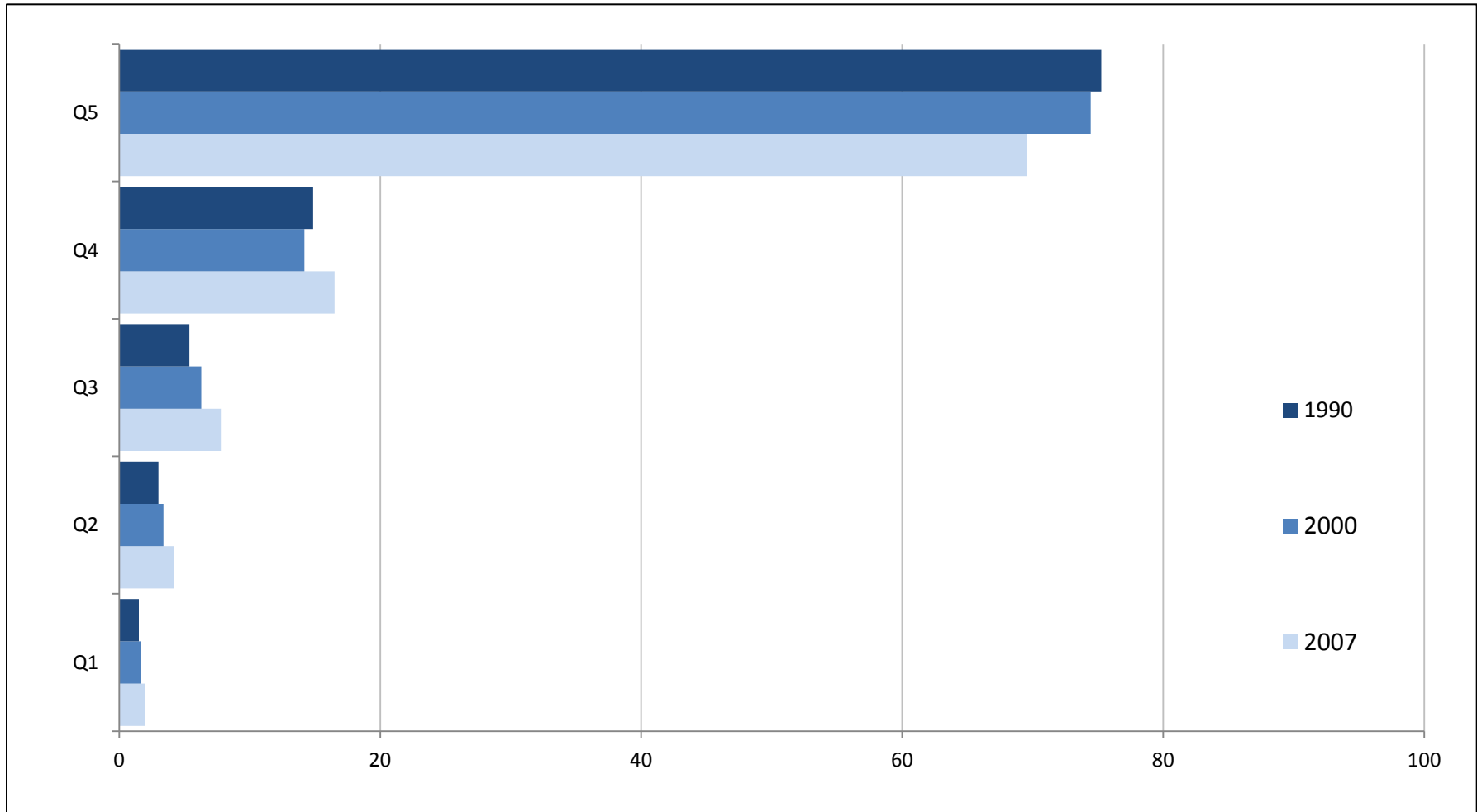
*South Centre Conference on 2015 and the South: Preparing for a  
Year of Uncertainty and International Summits  
Geneva, Palais des Nations, 12 March 2015*

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Director Social Protection  
International Labour Organization**

# Distribution of World Income: Development for Whom?

## Most people left behind before the crisis

Global Income Distribution by Countries, 1990-2007 (or latest available)  
in PPP constant 2005 international dollars

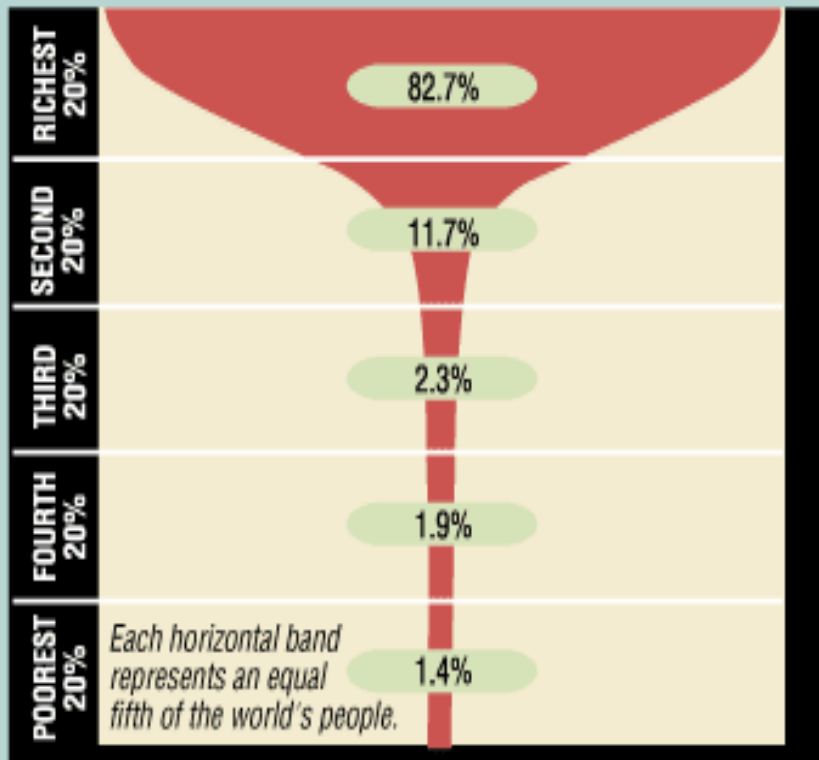


Source: Ortiz and Cummins. 2011. [Global Inequality](#). UNICEF

# Distribution of World GDP: The “Champagne Glass”

## Distribution of world GDP, 1989

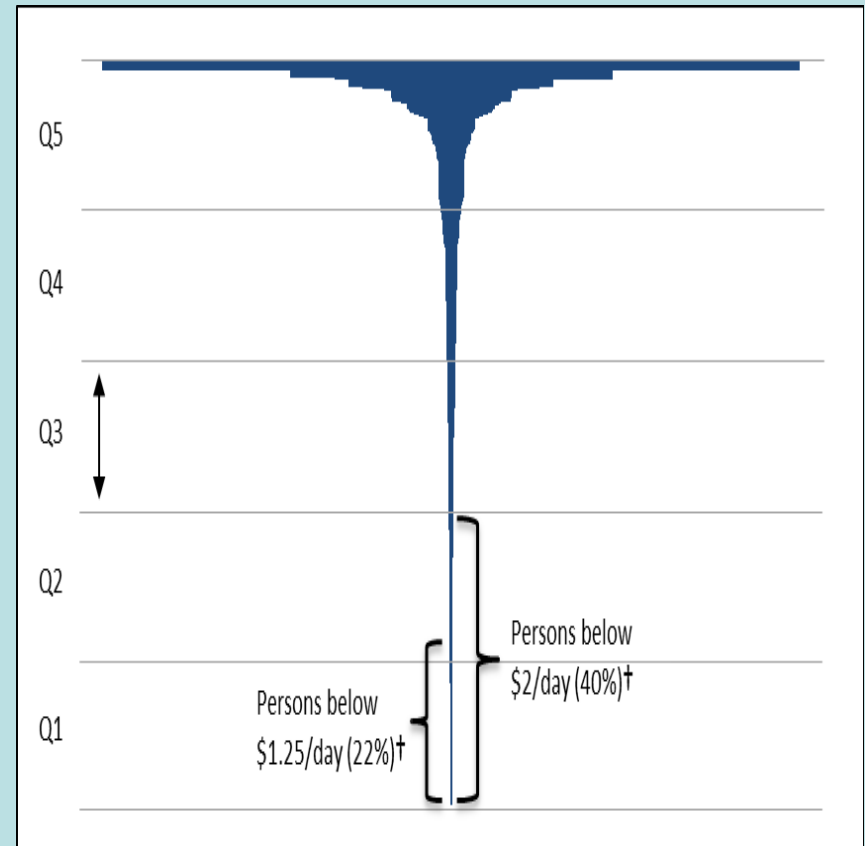
(percent of total, with quintiles of population ranked by income)



Source: United Nations Development Program, 1992, Human Development Report 1992 (New York: Oxford University Press for the United Nations Development Program).

## Distribution of world GDP, 2007

(by quintiles, richest 20% top, poorest 20% bottom)



Source: Ortiz and Cummins UNICEF 2011

# Inequality Further Increased by Global Crisis (I): Crisis Transmission Channels

## 1. Employment and Income

- Unemployment, underemployment
- Wage cuts/caps
- Lower pension and welfare benefits
- Decreased demand for migrant workers
- Lower remittances

## 2. Prices

- Basic food, agricultural inputs
- Fuel
- Medicines, drugs

## 3. Assets and Credit

- Lack of access to credit
- Loss of savings due to bank failures
- Loss of savings due to coping mechanisms
- Home foreclosures

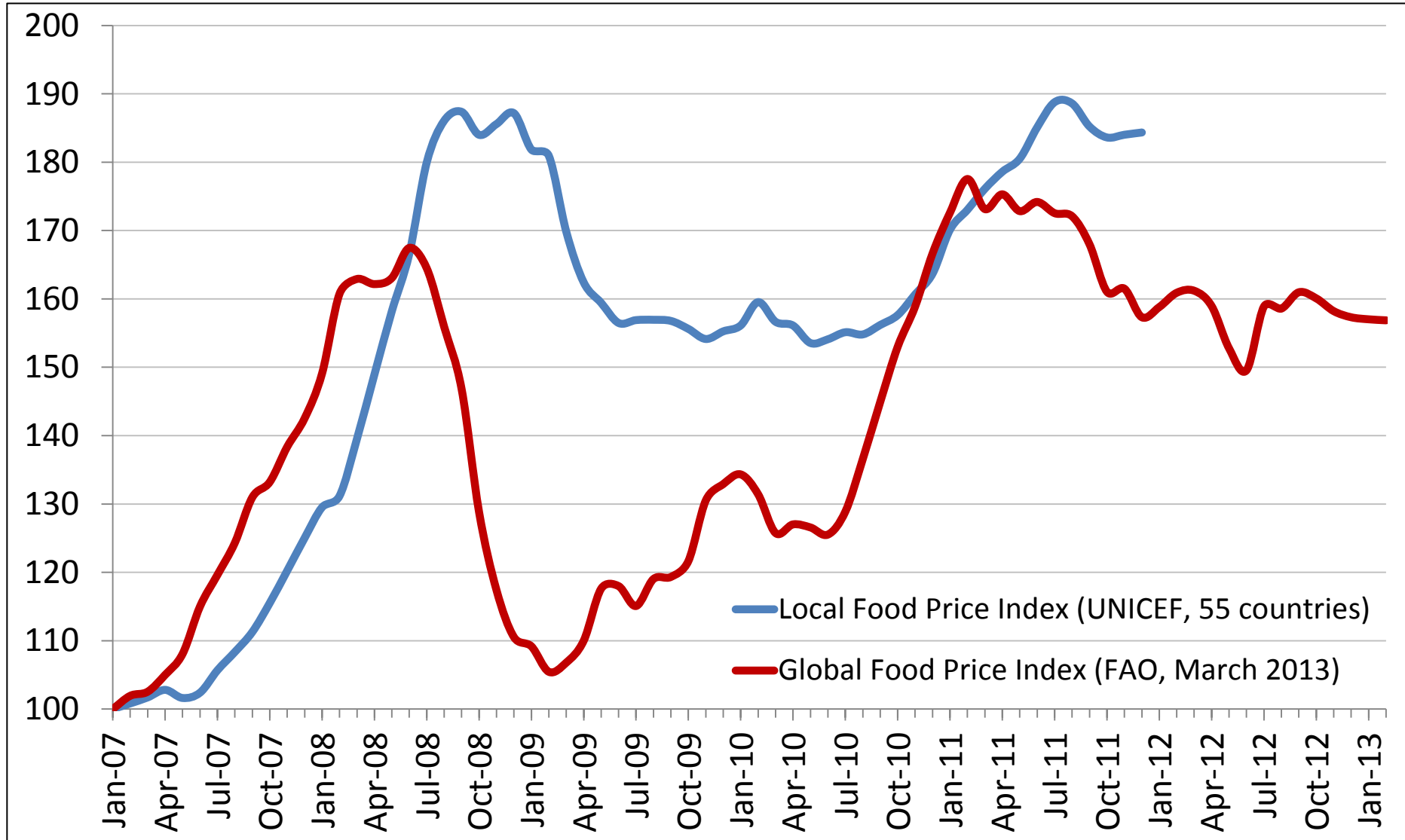
## 4. Government Spending on Economic and Social Sectors

- Education
- Health
- Social protection
- Employment programmes
- Public investment (e.g. infrastructure)

## 5. Aid Levels - ODA

*A crisis created by the financial sector in the North, transmitted to the South*

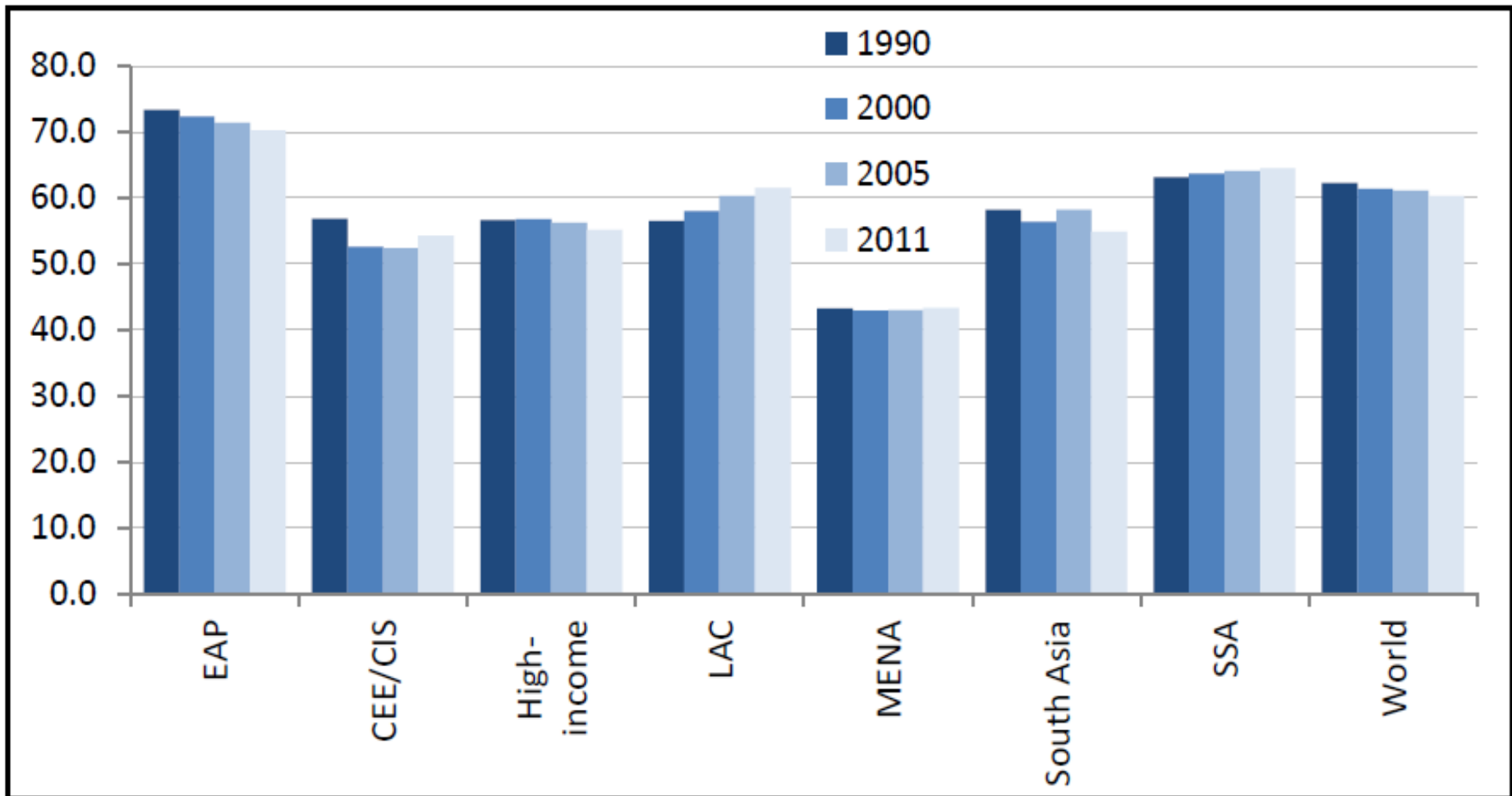
# Inequality Further Increased by Global Crisis (II): Higher Food Prices



Source: Ortiz and Cummins. 2012. [A Recovery for All](#). UNICEF

# Inequality Further Increased by Global Crisis (III): Employment – The long jobs crisis

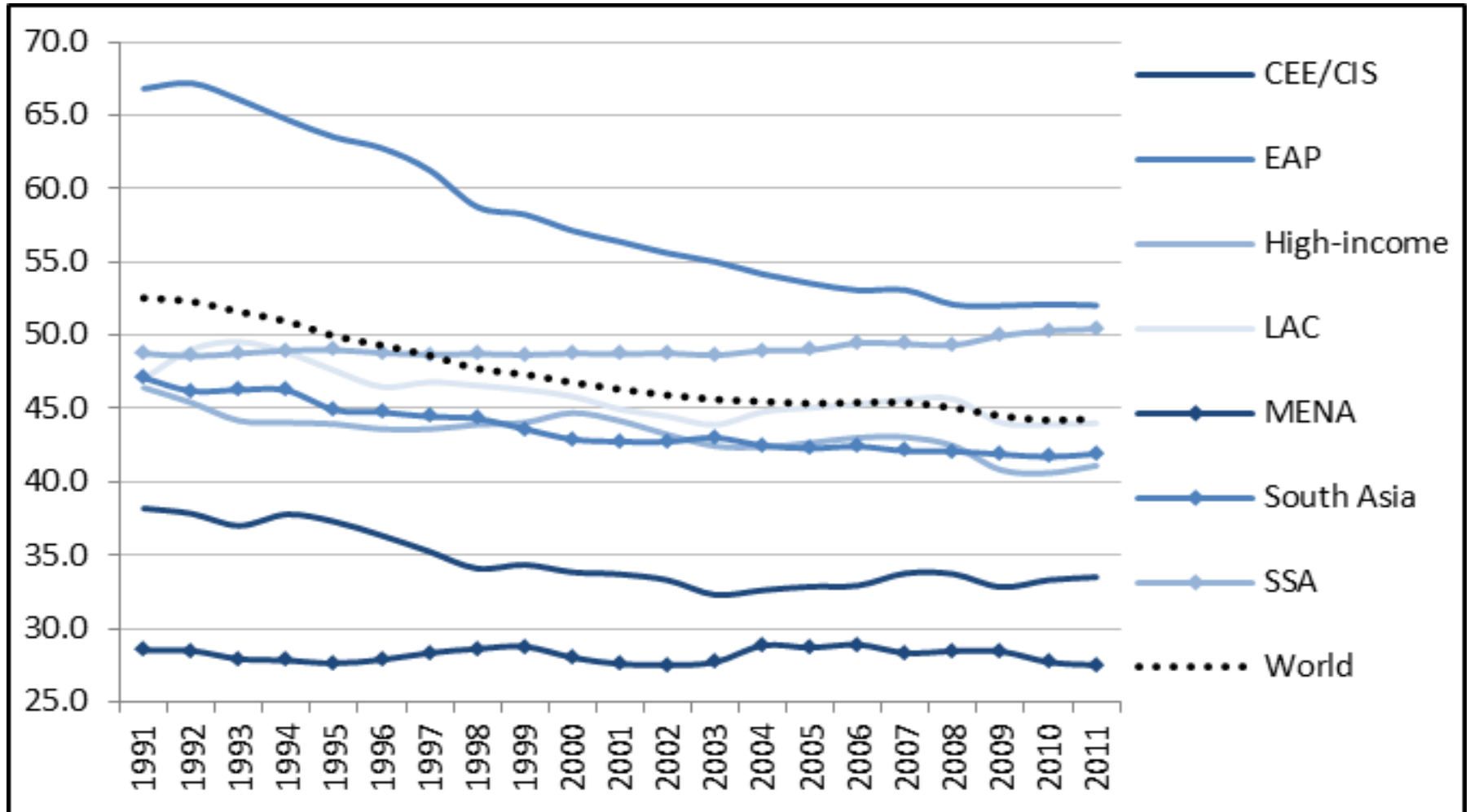
Employment to Population Ratios 1990-2011



Source: Ortiz and Cummins. 2012. [A Recovery for All](#). UNICEF.

# Inequality Further Increased by Global Crisis (III): Declining Demand for Young Labour

Youth Employment to Population Ratios 1990-2011

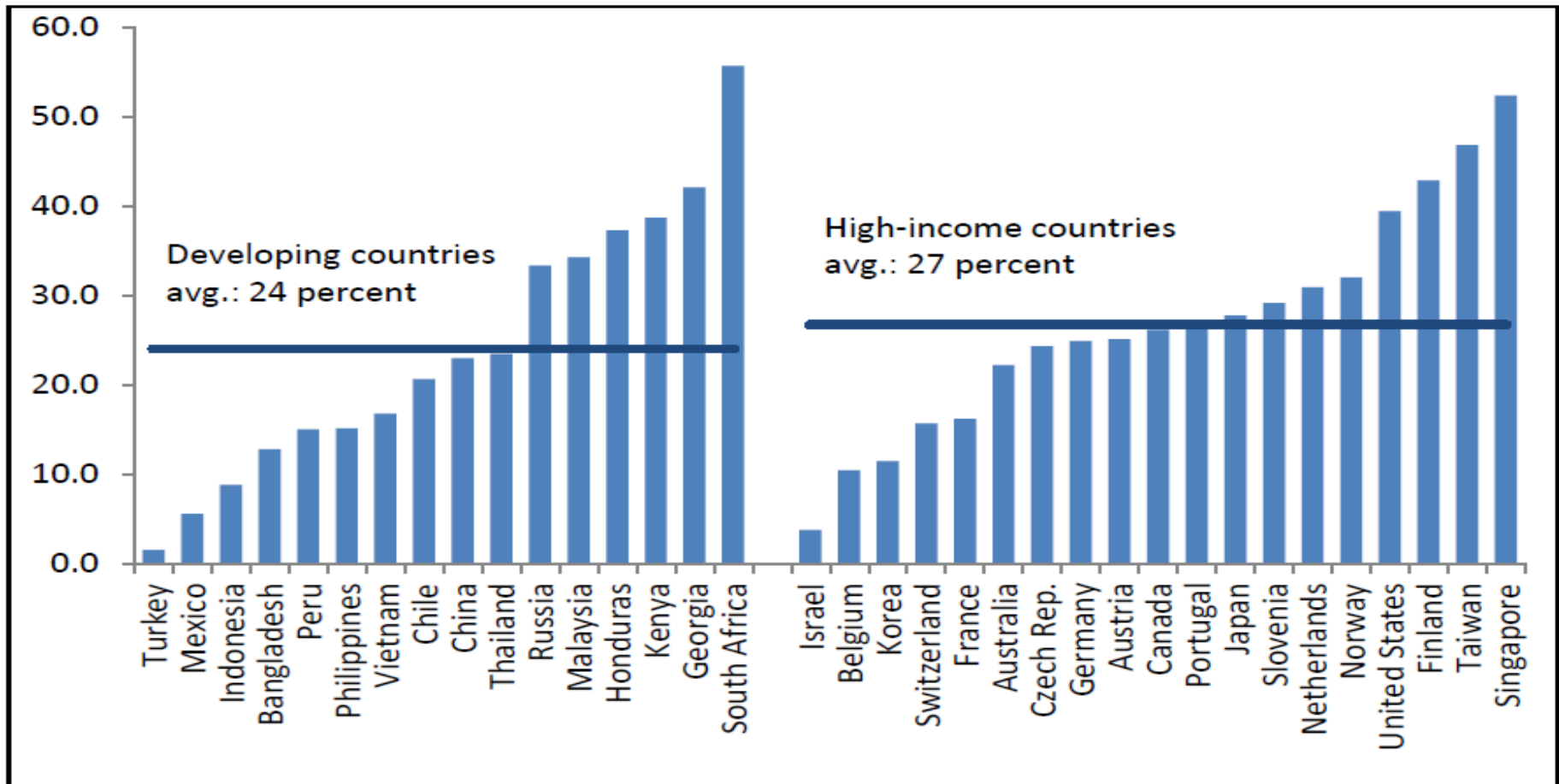


Source: Ortiz and Cummins. 2012. [A Recovery for All](#). UNICEF.

# Crisis Phase I (2008-09) – Fiscal Expansion

- \$2.4 trillion fiscal stimulus plans in 50 countries

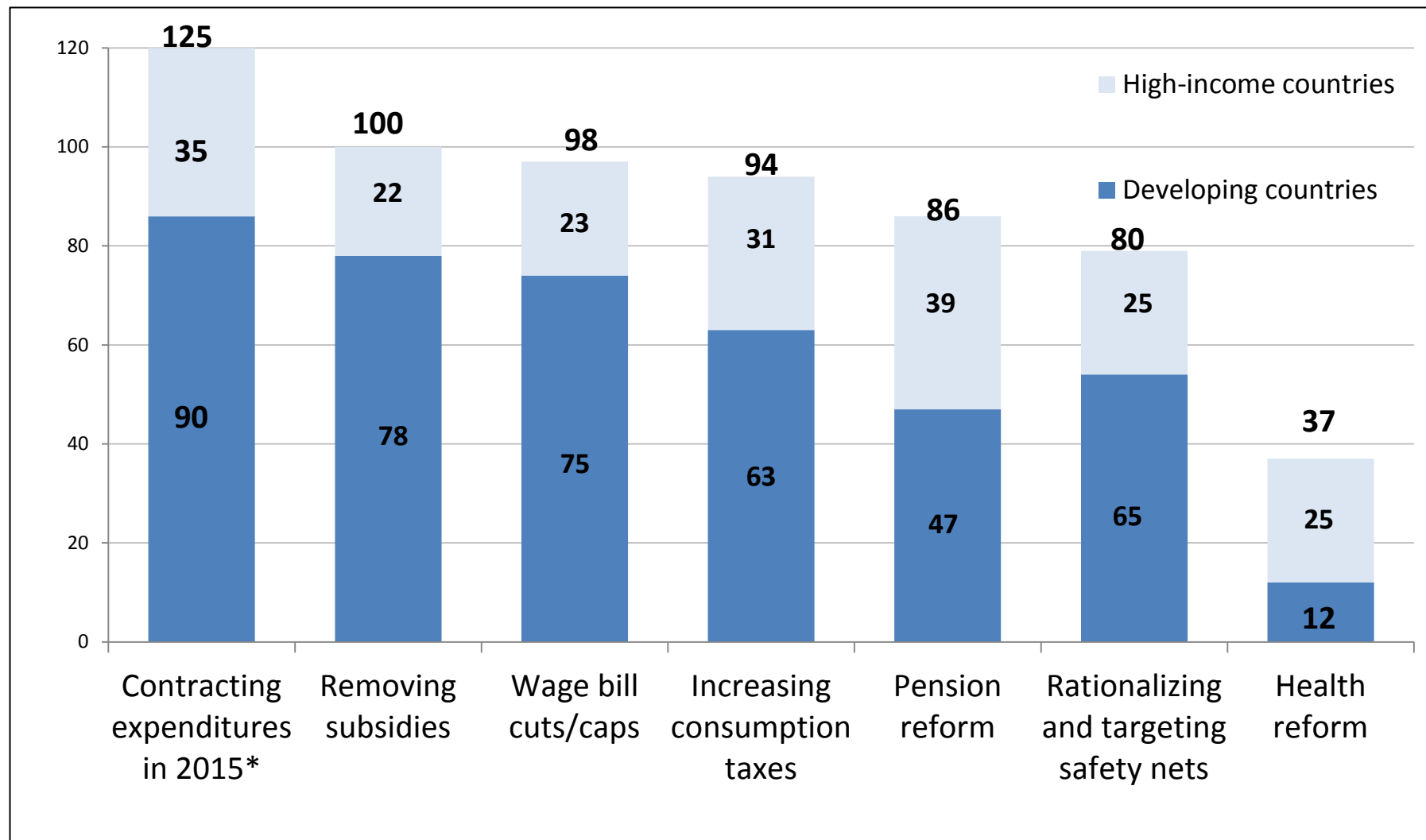
## Social Protection in Fiscal Stimulus Plans 2008-09



Source: Ortiz and Cummins.2013. [The Age of Austerity](#). IPD and the South Centre



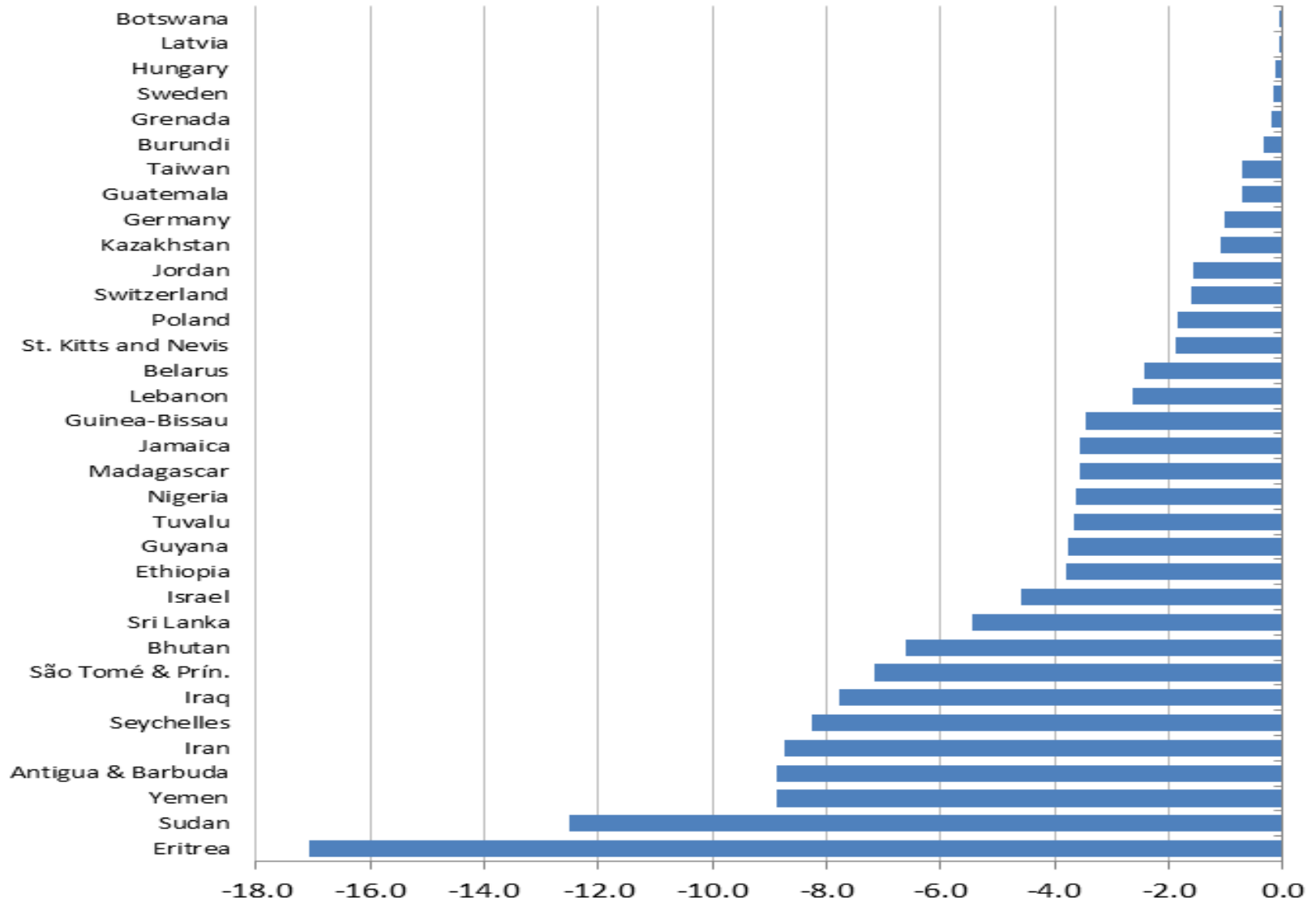
# Crisis Phase II (2010 onwards): Fiscal Consolidation Adjustment Measures in 174 Countries, 2010-13



Source: [ILO World Social Protection Report 2014-15](#) and Ortiz and Cummins, [The Age of Austerity](#), IPD and the South Centre - based on 314 IMF Country Reports

# 2013-15: A fifth of countries excessive contraction (expenditures below pre-crisis levels)

Changes in Total Government Spending as a %GDP, 2013-15 avg. over 2005-07 avg.



Source: ILO calculations based on IMF's World Economic Outlook (October 2014)

# Inequality Further Increased by Global Crisis (IV): A Crisis of Social Support

**125 countries contracting public expenditures in 2015 (90 developing)**

- **Reducing subsidies** (food, fuel and others) in 100 countries, despite record-high food prices in many regions
- **Wage bill cuts or caps** in 98 countries, reducing the salaries of public-sector workers who provide essential services to the population.
- **VAT increases** on basic goods and services that are consumed by the poor – and which may further contract economic activity – in 94 countries
- **Rationalizing and targeting safety nets** are under consideration in 80 countries, at a time when governments should be looking to scale up benefits through social protection floors
- **Reforming pension and health care systems** in 86 and 37 countries
- **Labor flexibilization reforms** in 30 countries, eroding workers rights

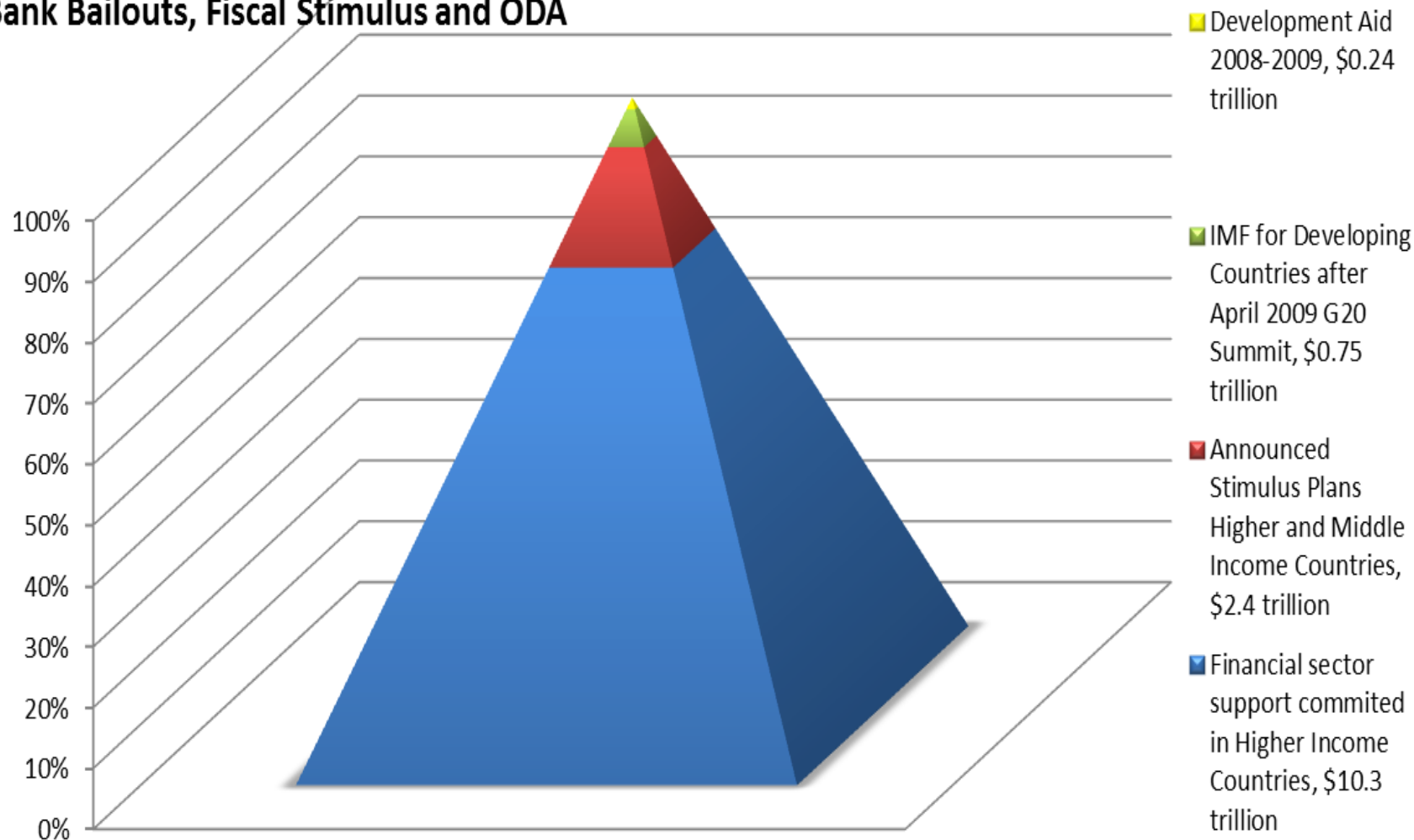
# People Are Suffering Unnecessarily

- People were left behind in the run-up to the crisis
- People were severely affected during the crisis
- Now people are suffering from the sharp reductions in government expenditure and increases in public debt and from reduced economic growth.
- Return to “normal” (pre-crisis) is not a the solution, many were denied a decent living
- Governments acted as a banker of last resort – but not as an employer of last resort, protecting people and stimulating growth.
- The crisis is used as an opportunity to cut back the state, even though the lesson of other crises is that the state needs to be stronger not weaker
- The crisis used as an opportunity to impose unpopular reforms (eg labor flexibilization, welfare cuts) instead of regulating the financial sector and ending corporate welfare

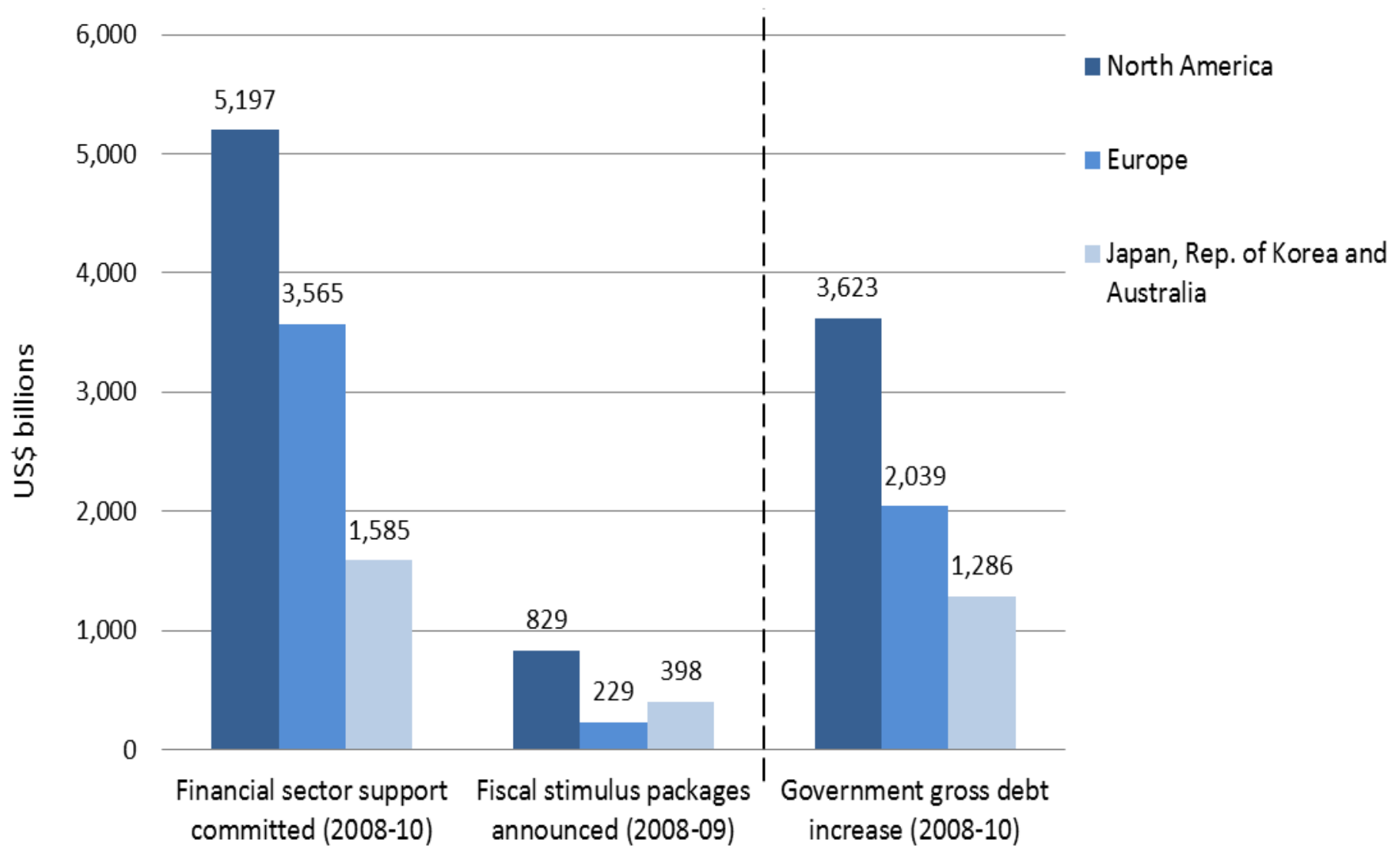
# Inequality Further Increased by Global Crisis (V): Development Aid

## Financing Global Recovery 2009

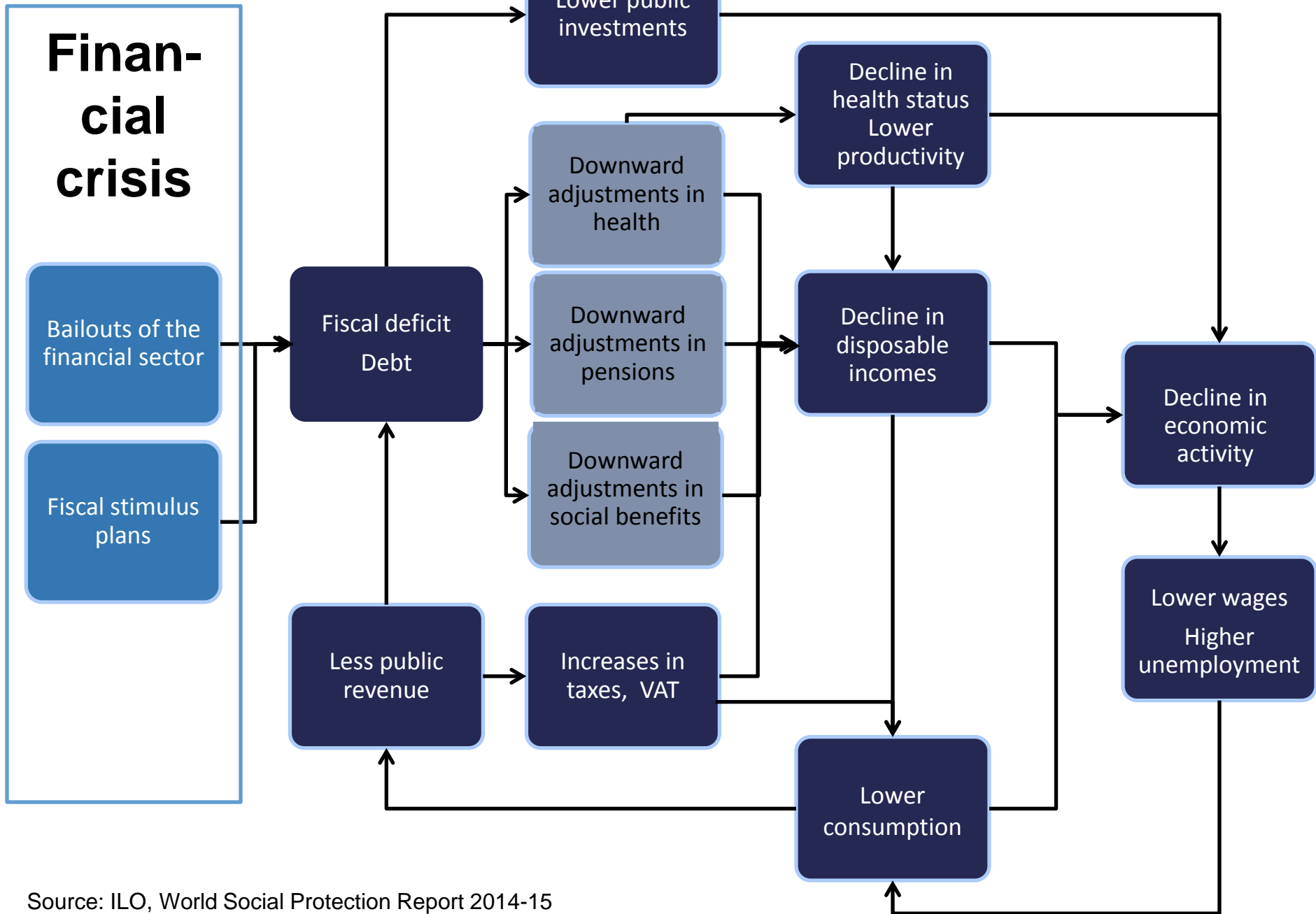
### Bank Bailouts, Fiscal Stimulus and ODA



# Prioritizing Finance over Socio-economic Recovery: Bailing out banks, not people

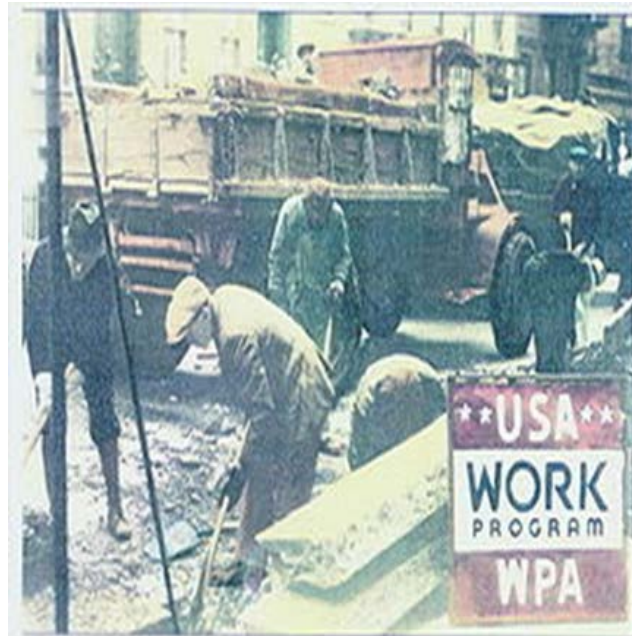


Source: ILO, World Social Protection Report 2014-15



# Urgent Need for Policy Shift – It is not too late

- Current crisis presents an opportunity to rethink socio-economic policies for all persons
- 1929 financial crash led to a New Deal that radically altered the development model of the day:
  - ✓ Stimulated economic growth and employment
  - ✓ Regulated the financial sector
  - ✓ Expanded social security
- A comparable policy push is needed today
- It is not too late
- Increased international cooperation/coordination is urgently needed for a more robust and sustained recovery, with benefits far more widely shared





# There are Alternatives

- **Global Level**: “A global crisis demands a global response” - [\*Report of the Stiglitz Commission\*](#), set up by the UN General Assembly, and [UN Summit on the Crisis](#), the only legitimate agreement by the G192 (instead of the G7 or G20 only) - but so far, global action has been limited and weak - lack of global leadership.
- **Regional Level**: Regional integration initiatives like ALBA, UNASUR, MERCOSUR, ASEAN, AU, etc
- **National Level** – Most of the hardship is self-inflicted, possible policies for socio-economic recovery, growth and equity through active promotion of national development (next slides).

## Policy shift: Ecuador

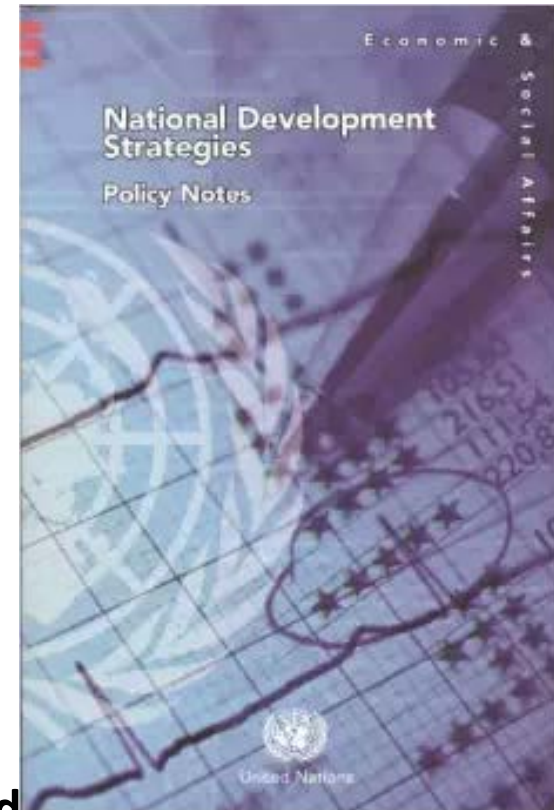
- Ecuador, a country challenged like Europe by not having a national currency (it uses the US\$) and therefore has limited capacity for policy maneuver, creatively managed to restore growth and improve living conditions.
- The government kept interest rates low and expanded liquidity by requiring banks to keep at least 45% of their reserves in Ecuador.
- It took a partial default on its illegitimate external debt (private debt that had been made public); the freed public resources were invested in social development
- It increased taxation, including of foreign companies, and used resources for national development
- Results are impressive: poverty fell from a recession peak of 36.0% to 28.6%, unemployment dropped from 9.1% to 4.9% and school enrollment rates rose significantly

# United Nations Development Agenda

- 2005 World Summit: governments' pledged *more ambitious National Development Strategies*, backed by increased international support
- United Nations Policy Notes to guide National Development Strategies, on critical areas from macroeconomics to social policy where standard sourcebooks and guidelines not adequately reflecting international agreements and latest research evidence.



- Developed by the UN with Nobel Laureate Joseph Stiglitz, Jose Antonio Ocampo Jomo K. Sundaram and other known economists/specialists, revised by UN agencies.
  - Annual discussions by Governments at the UN Economic and Social Council
  - Increased international coordination is urgently needed



<b>1980s-90s Washington Consensus</b>	<b>UN Agenda Development for All</b>
<ul style="list-style-type: none"> <li>✘ Growth priority through deregulation, free markets, minimalist governments, residual social policies</li> </ul>	<ul style="list-style-type: none"> <li>➤ Growth and equity through active promotion of national development. Social and economic development integrated</li> </ul>
<ul style="list-style-type: none"> <li>✘ Macroeconomic policies focused on inflation and stabilization</li> </ul>	<ul style="list-style-type: none"> <li>➤ Macroeconomic policies focused on the stability of real output, incomes and employment</li> </ul>
<ul style="list-style-type: none"> <li>✘ Containing public expenditures, fiscal discipline, avoiding fiscal deficits</li> </ul>	<ul style="list-style-type: none"> <li>➤ Public investment for development; need to expand governments' fiscal space</li> </ul>
<ul style="list-style-type: none"> <li>✘ Minimal direct taxation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Taxation for development and redistributive purposes</li> </ul>
<ul style="list-style-type: none"> <li>✘ Export-led growth</li> </ul>	<ul style="list-style-type: none"> <li>➤ Developing domestic markets, selective export policy</li> </ul>
<ul style="list-style-type: none"> <li>✘ Privatization of public assets services, minimalist government</li> </ul>	<ul style="list-style-type: none"> <li>➤ Building state capacity to promote development, public investment.</li> </ul>

1980s-90s Washington Consensus	UN Agenda Development for All
<ul style="list-style-type: none"> <li>✘ Residual social policies – a cost (minimal, <i>targeted to the poor</i> ), safety nets</li> </ul>	<ul style="list-style-type: none"> <li>➤ Social Policies as an investment. Universal policies (for all), redistribution back in the development agenda</li> </ul>
<ul style="list-style-type: none"> <li>✘ Commercialization of social services, cost recovery (fees for services)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Universal public services, eg UNICEF School Fee Abolition Initiative, WHO-Bank Universal Health Coverage</li> </ul>
<ul style="list-style-type: none"> <li>✘ Labor flexibility, productivity</li> </ul>	<ul style="list-style-type: none"> <li>➤ ILO Decent work agenda</li> </ul>
<ul style="list-style-type: none"> <li>✘ Reforms social security and welfare systems, targeted safety nets, pension privatization</li> </ul>	<ul style="list-style-type: none"> <li>➤ Social Protection Floors for all and universal public social security systems, reversing pension privatization</li> </ul>
<ul style="list-style-type: none"> <li>✘ Human Rights: endorsed but not implemented</li> </ul>	<ul style="list-style-type: none"> <li>➤ Empowering people through rights and standards</li> </ul>
<ul style="list-style-type: none"> <li>✘ No interest for culture and values (intangible)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Important for tackling exclusion, discrimination (UNESCO, UNFPA)</li> </ul>
<ul style="list-style-type: none"> <li>✘ No attention at sources of conflict (“political”)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Conflict prevention (UNDP)</li> </ul>

# Fiscal Space Exists Even in the Poorest Countries

- **There is national capacity to fund socio-economic development in virtually all countries**
- **There are many options, supported by UN policy statements:**
  - Re-allocating public expenditures
  - Increasing tax revenues
  - Fighting illicit financial flows
  - Lobbying for increased aid and transfers
  - Tapping into fiscal and foreign exchange reserves
  - Restructuring/managing debt
  - Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

# Fiscal Space Strategies: Country Examples

Strategy	Pl. State of Bolivia	Botswana	Brazil	Costa Rica	Lesotho	Iceland	Namibia	South Africa	Thailand
Reallocating public expenditures				X	X	X		X	X
Increasing tax revenues	X	X	X		X	X			X
Expanding social security contributions			X	X	X		X	X	X
Reducing debt/debt service	X	X	X	X	X	X		X	X
Curtailling illicit financial flows						X	X		
Increasing aid							X		
Tapping into fiscal reserves	X	X	X						
More accommodating macroeconomic framework	X		X			X			

Source: ILO, World Social Protection Report 2014-15





# Thank you

## Download:

*“Global Inequality: Beyond the Bottom Billion – A Review of Income Distribution in 141 Countries.”* 2011. UNICEF.

[http://www.unicef.org/socialpolicy/index\\_58230.html](http://www.unicef.org/socialpolicy/index_58230.html)

*A Recovery for All.* 2012. New York: UNICEF Policy and Practice.

<http://arecoveryforall.blogspot.com/>

*World Social Protection Report 2014-15* . Geneva: ILO

[http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS\\_245201/lang--en/index.htm](http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS_245201/lang--en/index.htm)