International Policy Centre for Inclusive Growth

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The Global Economic Crisis Hampers Human Development. **How?**

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For developing economies the current crisis means reduced demand for their exports, a decline in capital inflows and lower income from tourism. This One Pager discusses the transmission of the crisis from changes in aggregate variables to its impact on progress towards human development. The focus is on African economies.

According to the International Monetary Fund (IMF), in 2008 the volume of world trade declined by 3.9 per cent over the figure for 2007. It is forecast to decline by a further 7.7 per cent in 2009. This fall in demand entails a cost of about US$251 billion to African economies. The loss comes from drops in commodity prices. Between April and December 2008, the price of beverages and food fell by 24 per cent. Prices for minerals, ores and metals dropped by 51 per cent. Prices of vegetable oil seeds fell by 47 per cent. Prices of agricultural raw materials dropped by 35 per cent. Crude oil prices plunged from a high of US$127 per barrel in July 2008 to US$39.93 in January 2009. Ten countries in the region rely on oil exports as a major source of income.

For the region as a whole, foreign direct investment as a share of national income is predicted to drop by 16 per cent in 2009 from its 2007 value. The World Bank has reported that remittances to Africa will fall by 8.3 per cent in 2009. Early reports indicate that Ireland, Italy and Latvia have already cut their foreign aid by 10 per cent, 65 per cent and 100 per cent, respectively. Africa's share of tourist visits declined from 20 per cent of total world visits in 2007 to 4 per cent in 2008.

How, then, does the crisis affect human development outcomes? The UN estimates that up to 103 million more people will fall into poverty or fail to escape poverty because of the crisis. According to the International Labour Organisation (ILO), the unemployment rate is expected to increase by 0.6 per cent in 2009. About 45,000 jobs have already been lost in South Africa. In the Democratic Republic of Congo, 100,000 workers were made redundant because of smelter closures. In the Central African Republic, half of the workforce has been laid off from the Société d'Exploitation Forestière en Centrafrique (SEFCA). In the Zambian mining sector, 6,000 people lost their jobs in November 2008.

Conceição et al. (2009, p. 5) note that "less skilled and poorer workers are often more likely to be laid off at the beginning of an economic downturn. Lack of education and transferrable skills implies that the group is likely to be the last to get employed after the economy bounces back." Formal sector job losses also increase the informalisation of labour. Job safety and legal protection are compromised. Excess labour supply caused by reverse migration is likely to worsen poverty through added unemployment in the returnees' home towns and villages, further lowering wage rates.

A fall in remittances jeopardises the capability of households, which use the funds as effective social insurance and to smooth out income and consumption levels. Families may sell their productive assets such as land, livestock and beasts of burden, making them even more vulnerable and destitute.

Reduced household consumption is likely to increase malnutrition, especially among children. This hinders child growth, affecting learning and cognitive abilities. The World Bank has reported that infant deaths in developing countries may be 200,000 to 400,000 per year higher on average between 2009 and the Millennium Development Goal (MDG) target year of 2015. Friedman and Schady (2009) estimate that the current crisis will lead to between 30,000 and 50,000 excess infant deaths.

Because of income shocks, poor households may withdraw their children (often girls) from school so that they can complement household income by working in the informal labour market. This perpetuates the intergenerational transmission of poverty and reduces future income during adulthood.

The crisis can worsen income distribution. It is likely that high-income groups can withstand shocks by drawing down savings or by using banking facilities. Low-income groups often lack savings or access to financial services in order to achieve inter-temporal adjustments in their income.

What should be the immediate response? The crisis disproportionately affects the poor, who have weak coping mechanisms in the first place. Subsidies that protect vital consumption items such as food and cooking fuel are useful anti-crisis measures. Existing social assistance programmes such as labour-intensive public works and cash transfers can be scaled-up to protect jobs and incomes. Social and infrastructure spending needs to be ring-fenced. These measures require financing and policy space to adopt counter-cyclical macroeconomic policies.

What should be the long-term response? National policies and institutions determine the course of development. But the vulnerability of economies to crisis is largely determined by their position in the production and distribution hierarchy of the global economy. What is needed is a strategy for the transformation of economic and social structures.

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