OXFAM RESEARCH REPORT

The Global Economic Crisis and Developing Countries

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Summary

The full report is available at www.oxfam.org.uk/economiccrisis

Oxfam International

Summary

I've never made any mistake, never done anything wrong. It's probably because of my age … it's very difficult for older people, difficult to get a new job – even youths find it hard.

– 41-year-old female garment worker dismissed from a factory in Serang, Indonesia

I feel cheated as I wonder how economic problems somewhere in America can make my cash crop suffer here in Malawi. It's a shame that I cannot boil and eat it.

– Cotton farmer, Malawi

[My relatives in the US] are unable to send me money because the job opportunities are not there any more. Their support is a huge contribution to the family here because it helps us to support children in school and pay medical bills when one is sick.

– 54-year-old in Monrovia, Liberia

Behind the official statistics and the economic modelling, farmers, manufacturing workers, migrant workers, waste-pickers, and women working unpaid in the home in large swathes of the world are asking the same question: 'What hit us in 2009?'. Oxfam's research on the global economic crisis in 12 countries,[1] involving some 2,500 individuals, combined with the findings of studies by a range of universities, think tanks and international organizations, reveals the depth and complexity of the impacts, vulnerabilities, and resilience among poor people and countries worldwide.

The research has sought to drill down to sectoral, individual, and household levels, and the findings challenge some of the macro analysis presented elsewhere. Oxfam's research presents a diverse picture, with pockets of export-dependent workers and industries in countries like Ghana and Indonesia devastated even when national economies seem to be weathering the storm. While households spoke of having increasing trouble putting food on the table, they did not make neat conceptual distinctions between rising food prices, the economic crisis, or the impacts of climate change on their harvests.

In countries such as Thailand and Cambodia, women employed in the front line of the world's consumer supply chains have lost their jobs in large numbers. Many others have suffered wage freezes or reductions in work hours, or have been pressured into less secure contracts, as companies have taken advantage of the crisis. Gender norms (the ideas about women and men that shape relations between the sexes) also matter: employers are targeting women first because they view them as only the secondary breadwinners in the family. In households, women have eaten less to provide for husbands and children and have migrated or worked more, without social security or legal protection in the informal economy to prop up the family income.

But if one theme emerges from Oxfam's research into the impact of the crisis, it is resilience and the multiple ways that countries, communities, households, and individuals have found to weather the storm. 'Resilience' here refers to the capacity of peoples, institutions, and systems to resist and absorb shocks, and to reorganize so as to retain or enhance their effective functions, structures, and identities. The research revealed several 'dogs that did not bark' – things that we expected to happen, based on previous crises, but have so far happened

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[1] Armenia, Burkina Faso, Cambodia, Ecuador, Ghana, Indonesia, Nicaragua, the Philippines, Thailand, Vanuatu, Viet Nam, and Zambia, together with regional research and analysis of Africa, Latin America, South-East Asia, and the Pacific.

differently or not at all. In a surprising number of cases, migrants have not returned to their villages; remittances from overseas workers have kept flowing; households have been able to feed themselves from their gardens or farms; most people have kept their jobs, albeit with lower wages, fewer hours, and worse conditions; and families have managed to keep their children in school.

The extent of resilience, and the degree to which it will bolster future development, is determined to a large extent long before any crisis actually strikes. Pre-crisis factors that have strengthened resilience on this occasion include:

Social networks: At a household level, resilience is largely built on the agency of people themselves, their friends and families, and local institutions such as religious bodies or community groups. Everywhere, people have turned to one another to share food, money, and information to recover from lost jobs or reduced remittances. Families with land for subsistence farming or access to fishing have, thus far, been able to survive much better than those without. Migrants with strong social networks have been able to rely on support locally, or even (in Viet Nam) on reverse remittances from home.

Economic structures: Dependence on one or two commodities or on markets alone increases the risk should they go into freefall; the extent and nature of integration with the global economy, particularly of the financial sector, has also proved a source of vulnerability. Countries such as Brazil that retain state control over a portion of their banking system have been more able to use those banks to channel credit to cash-starved small producers and small and medium enterprises. Countries with effective systems of domestic taxation in place reduce their vulnerability to sudden losses of trade taxes or foreign capital inflows. Regional trade links can offer a bulwark against slumps in global markets.

Role of the state: Resilience is enhanced when governments have entered the crisis with fiscal space, in the form of high reserves, budget surpluses, and low debt burdens. Effective state bureaucracies capable of responding rapidly to the crisis with fiscal stimulus measures have also shown their worth. Well-designed and implemented labour laws are needed to deter unscrupulous employers from taking advantage of the crisis to attack workers' rights. State support for small-scale agriculture and fisheries has bolstered household survival strategies in countries such as Viet Nam and Sri Lanka.

Social policies: Free health care and education and effective social protection systems reduce the vulnerability of poor people to health shocks, avoiding school drop-outs in response to falling incomes, and providing shock absorbers against falls in household incomes. More generally, automaticity is beneficial in a crisis: if automatic stabilizers such as unemployment insurance, or demand-driven public works schemes such as India's National Rural Employment Guarantee Scheme (NREGS), are already in place, they can respond immediately to a crisis rather than wait for decisions by hard-pressed governments fighting the crisis on several fronts. Similarly, it is far easier to scale up existing cash transfer schemes such as Brazil's *Bolsa Familia* to inject cash into poor communities than it is to design new ones from scratch. Moreover, the chaos generated by a crisis increases the likelihood of hastily introduced social responses being badly designed, or captured by vested interests.

The limits to resilience

However, resilience, whether national or individual, has its limits. It does not take much for coping strategies to become self-defeating. Assets, once depleted, take years to recoup; working extra hours in second or third jobs leaves a legacy of exhaustion; loans taken on to finance consumption accumulate into crushing debt burdens; and meals foregone can affect children for their entire lifetimes. It is clear that many women are paying a particular price through their additional unpaid work to support their households.

Public action by governments, aid donors, and international institutions is essential. When they get it right, such action can strengthen and replenish the sources of resilience; when they get it wrong, or fail to show up, lives and life chances can quickly become vulnerable and precarious.

Responding to crises

Many governments have used fiscal policy to stimulate their economies. The focus of stimulus packages and counter-cyclical expenditures[2] has included increasing social spending and infrastructure investment, as well as tax cuts and subsidies to stimulate both consumer and business demand.

Many governments instituted or scaled up social protection to respond to the crisis, but since the majority of developing countries have weak social welfare systems, many have had to use discretionary spending to do so. Oxfam's research found many instances of individuals or households affected by the economic crisis who were not able to benefit from existing or new government schemes. This raises serious questions about the targeting of new programmes and provides arguments for both improved monitoring and for improving the universality of social protection prior to a crisis striking.

While spending initially held up, poor country revenues slumped, through falling direct and indirect taxes, and lower trade taxes and royalties from commodities such as oil and minerals. Overall, the crisis has left poor countries with a $65bn fiscal hole, and after an initial attempt to defy fiscal gravity, in 2010 that deficit is forcing cuts in health and education spending.

Despite G20 and donor country promises to help poor countries cope with the effects of the global economic crisis, only $8.2bn in grants has made its way to poor countries – plugging only 13 per cent of the fiscal hole. With aid providing just one dollar for every eight lost from poor country budgets due to the crisis, countries that were already failing to meet the Millennium Development Goals on reducing poverty and guaranteeing health, education and other aspects of a decent life, are being pushed further off-track through no fault of their own. If aid donors and international institutions cannot buck the historical trend of cutting aid after a crisis, the prospects for many poor countries look grim.

However, there is also some good news on the international response. In past crises, the policies of international financial institutions have sometimes exacerbated vulnerability, for example by imposing pro-cyclical spending cuts as conditions for their loans. This time, the International Monetary Fund (IMF) has responded by allowing more fiscal space in African countries, and by advising governments to protect social sector spending. As a result, African countries with IMF programmes have been more successful in protecting social spending than those without.

Lessons for the future

Plan for crises before they occur: Governments need both to invest in prevention (e.g. via adequate regulation of finance) and to stress-test their economic policy, state institutions, and social policies against possible future crises.

Monitor the impact and talk to people: The best responses have involved on-the-ground, real-time monitoring of the impact of the crisis, and genuine dialogue with affected communities about the best way to respond.

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[2] 'Counter-cyclical' economic policies are those involving government spending in an economic downturn, and being prudent during an upturn.

Support local-level coping mechanisms: Governments should build the capacity of families, local civil society, and faith organizations to respond to crises.

Access to information: Support during crises can also include providing information on sources of help, and even supporting connectedness and 'moral messaging' – e.g. respected local figures calling on citizens to check on the welfare of their neighbours.

Gender matters: One near-universal characteristic of responses to date is gender-blindness. Governments have responded to job losses in textiles and garments industries, largely of women, by channelling fiscal stimuli into construction, which largely employs men. Attempts to inject credit into cash-starved economies too often end up being pounced upon by large enterprises, which employ relatively few workers, rather than benefiting small, labour-intensive firms, or people working in the vast informal economies of the South.

After a crisis, replenish resilience: Each crisis depletes the coping capacities, both physical and psychological, of poor people and communities. After the crisis has passed, there is an urgent need to replenish those sources of resilience before the next shock arrives.

The future: building back better?

The crisis continues to ebb and flow through the world's economy, and it is therefore difficult to discern any clear picture of what lasting changes may result. As this report goes to press, the success or otherwise of the €750bn bailout package to support the eurozone single currency bloc looks set to have a significant impact on the next stage of the crisis. One fairly certain feature of the post-crisis world is that many of the nostra of 'Anglo-Saxon capitalism' and its accompanying Washington Consensus policies are damaged goods. On a global scale, the crisis has precipitated a massive and seemingly irreversible shift in the geopolitical centre of gravity from West to East, epitomized by the rise of the G20 and its eclipse of the G8. The coming decades could be more about a Beijing Consensus than the Washington version.

But one aspect of the Washington Consensus has been partially vindicated: governments need to run counter-cyclical policies in good times as well as bad. That means building up enough fiscal space during booms to be able to maintain or increase spending when a shock hits. To caricature, in the past some of the more hard-line advice from interntional institutions has been to cut spending in both good times and bad, while NGOs and others have urged all governments always to increase social spending in times of both boom and bust. While this crisis has shown that spending on health and education certainly increases poor people's resilience to shocks, so too does fiscal space, which may imply greater restraint in public spending during boom periods. This is a delicate balance, and one that is best struck by accountable national governments rather than imposed by technocrats in Washington, London, or Frankfurt.

The crisis has marked the political coming of age of social protection as a development issue and, more widely, has highlighted the importance of managing risk and volatility at all levels. It is not enough to pursue economic growth now and social welfare later – the two must come together in pursuit of improved well-being. Poverty is not just about income, it is about fear and anxiety over what tomorrow may bring. This crisis is not the last, but if one of its lessons is that reducing vulnerability and building resilience are the central tasks of development, then future crises may bring less suffering in their wake.

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For further information, or to comment on this paper, email **research@oxfam.org.uk**

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