Economic crises and social protection for the poor: the Latin American experience[1]

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Macroeconomic crises have been a recurrent phenomenon in Latin America and the Caribbean for the last twenty years. In the 1980s, Mexico's debt crisis spread throughout Latin America and the Caribbean on the back of trade shocks and weak public finances. In 1995, Mexico's liquidity crisis spread to Argentina. In 1998 and 1999, contagion from the Asian and Russian crises and low commodity prices on the back of weak public finances and financial sectors hit Brazil, Ecuador and Venezuela particularly hard.

These crises were accompanied by sharp declines in living standards. The impact of the fall in real incomes and rising unemployment on the incidence and severity of poverty is well recorded. In the 1980s, in Argentina, real wages fell by almost 40 percent and poverty doubled. In Mexico, a similar fall in wages was associated with a 30 percent increase in poverty. In Chile, real wages contracted by about 15 percent and open unemployment shot up by 9 percentage points within a year. In Brazil, real wages fell by 11 percent and poverty rose by between 10 and 20 percent (depending on the source). Similar impacts on real wages and unemployment resulted from the 1990s crises. In 1996, real wages in Mexico fell by over 30 percent, and in Argentina poverty increased by fifty percent and unemployment rose by 6 percentage points and remained at around 18 percent for over two years. In Brazil, by March 1999, unemployment had risen to 9 percent up from 7 percent in 1996. In addition to the impact on current living conditions, economic crises may have long-term consequences on capabilities and economic growth. Falling incomes affect households' investment decisions on children's schooling, health and nutrition, which in turn affect their future income generating capacity.

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Undoubtedly, income downturns can have a more devastating impact on those living below or close to subsistence. Furthermore, there is evidence that suggests that recessionary periods associated with a crisis may have greater detrimental effects on social indicators than the equivalent period of growth. For example, it has been estimated that the beneficial effects in reducing poverty and inequality of a one percent growth in aggregate income are more than outweighed by an equal drop in aggregate income. [2]

Clearly, the best way to avoid the social costs associated with macroeconomic crises is to stay away from them. Prudent macroeconomic policy and sound financial systems are key to that effect. Countries with low fiscal deficits and coherent monetary and exchange rate policies are less likely to face macroeconomic crises and more able to withstand the effects of volatile capital flows and contagion. Similarly, countries with a financially strong banking sector and adequate prudential regulation are less likely to face financial debacles like the ones witnessed in Latin America, East Asia and Russia in the 1990s. Even if countries do everything right, they are likely to face adverse shocks due to volatility in the capital markets or sharp turns in commodity prices. Although the key to reducing the potential social costs of economic crises lies within the realm of macroeconomic management and the global financial architecture, specific responses can be more, or less, sensitive to the plight of the poor.

1.The social impact of economic crises: what we learnt from the 1980s

One country for which the various effects of an economic crisis have been tracked in detail is Mexico in the 1980s.[3] The debt crisis led to a sharp fall in GDP in 1983 from which Mexico did not really recover until after 1988. What were the social costs of the crisis? Who bore the brunt of the adjustment? From 1983 to 1988 real wages cumulatively fell by between 36% and 46%, depending on the sector, and minimum wages fell by 49 %. Moderate poverty measured by headcount rose from 28.5% to 32.6% and extreme poverty rose from 13.9% to 17.1%. Inequality measured by Gini coefficient rose from .47 to .53. (There is Lorenz dominance).

The cuts in Social Spending were high: Social spending fell by 33.1%; spending on education fell by 29.6%; and, spending on health fell by 23.3%. Spending on targeted programs was cut by more than the total in non-interest spending. General food subsidies were phased out and replaced by targeted food

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[2] De Janvry and Sadoulet, 1999.

stamp program. However, targeted programs suffered from important exclusion problems. Moreover, general subsidies on items such as corn derivatives, beans, rice, noodles, cooking oil, and eggs were justified from an equity point of view (they all had quasi-Gini's larger than unity). The number of free textbooks available per student declined and programs targeted to the extreme poor in rural areas (IMSSS-COPLAMAR) were cut disproportionately and some eliminated.

Social indicators revealed some worrisome patterns. In health, for example, infant and pre-school mortality caused by avitaminosis and other nutritional deficiencies increased from 1982, after years of decline, and there was an increase in the number of infants suffering from slow fetal growth and malnutrition both in absolute terms and in proportion to total diseases. In education, after 1982 the proportion of each graduates who entered the subsequent educational level declined--that is, relatively more children were either dropping out of school after completing a cycle, particularly after junior high or high school, or postponing their entry to the next level. (This may explain why the average schooling years of the population during the 1980s improved by one year, whereas the improvement in the previous decade equaled two years.) In addition, the percentage of children entering primary school as a ratio of the total number of children in the relevant age cohort declined. Finally, although dropout rates from primary school continued to decline, further disaggregation shows that dropout rates improved for urban children only; in rural zones the dropout rate rose by forty percent. Altogether, the above indicate that Mexico's poor may have suffered a long-term impact on their capabilities.

Similar stories have been found for the 1990s and in other countries in and outside the Region. In essence, macroeconomic crises hit households hard. Per capita consumption and real wages fall, and unemployment tends to rise. As indicated in the introduction, in the 1980s real wages in Argentina fell by close to forty percent, and poverty doubled. In Chile, real wages contracted by about 15 percent and open unemployment shot up by 9 percentage points within a year. In Brazil, real wages fell by 11 percent and poverty rose by between 10 and 20 percent. Although social indicators such as infant mortality rates and average years of schooling continued to improve, they did so at a slower pace, and there were widespread cutbacks in social spending. In the 1995-96 episode, real wages in Mexico fell by over 30 percent. In Argentina unemployment increased by 6 percentage points and remained at around 18 percent for over two years. (Tables 1.a and 1.b)

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[3] Lustig, 1998.

In Brazil, Guatemala, Mexico, Panama and Venezuela poverty and inequality increased during the 1980s, and so did poverty and inequality in the urban areas of Argentina, Bolivia, Chile, Honduras and Peru. Similarly, urban poverty and inequality in Argentina and in Mexico national levels of poverty and inequality rose sharply during the 1995 crisis. Although the poorest quintile of the population was not always hurt disproportionately, their average income fell. Clearly, income downturns can have a more devastating impact on those living close to subsistence. Furthermore, in country after country hit by the crisis, the income share of the top 10 percent increased, sometimes substantially.[4] (Tables 2.a and 2.b)

Because of the increase in inequality experienced during the 1980s crisis, the impact of the economic contraction was relatively harder on the poor than the previous growth period had been beneficial. For example, it has been estimated that a 1% decline in GDP/capita in a recession episode eliminates the gains in urban poverty reduction achieved by 3.7% in GDP/capita under 'early' growth (1970s), and the gains in rural poverty achieved with 2% of 'early' growth.[5] Recession has a particularly strong ratchet effect on inequality since subsequent growth is unable to compensate for the higher level of inequality generated under a recession episode.

Although social indicators such as infant mortality rates and average years of schooling, continued to improve in Latin America during the 1980s, they did so at a slower pace than in the previous decade. This was the result of the fact that some finer indicators of health and education worsened. For example, as said earlier in Mexico infant and preschool mortality caused by nutritional deficiency rose in the 1980s, reversing the trend from the previous decade. In Chile the data on low birth weight infants and undernourished children follow the trends in economic conditions, after a systematic improvement in both indicators in the 1970s. In Venezuela the literacy rate for people aged 15 to 19 fell in the 1980s. These trends also imply that investment in human capital probably became more skewed making the observed increase in inequality more entrenched. It is no wonder that this period became known as the "lost decade."

The role of the international community left much to be desired. First, there was an asymmetry in the treatment of labor and capital: whereas capital could always find a safe-haven country, labor could not freely enter other countries in search of higher living standards. The International Financial Institutions

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[4] See, Introduction, pp. 4-5. in Lustig, 1995

[5] De Janvry and Sadoulet, 1999.

sided with creditors in the debt-management strategy, at least until 1989 when the Brady Plan was announced. The multilateral financial institutions did not press or persuade the country to protect or implement safety net programs.

2. Policy choices and the social costs of economic crises

There are at least three dimensions to the question of whether the observed increases in poverty and inequality, and the signs of deterioration in some social indicators, are the result of the crisis itself or the policies implemented thereafter. First, was the macroeconomic policy mix hurtful to the poor? Second, were the specific measures introduced to achieve fiscal targets biased against the poor? Third, did the government introduce new programs or use existing programs to protect the poor from the impact of the adjustment process?

The macroeconomic policy mix

There are three recurrent aspects in any typical macroeconomic crisis: a depletion of international reserves, a sharp fall in capital inflows, and an increase in the interest rate on external and internal debt. More recently, macroeconomic crises have been accompanied by banking crises too. To the extent that the country must rely on foreign savings to grow, the cutback in capital inflows will translate into a fall in GDP or, at best, in a fall in GDP growth. Likewise, a disruption of the financial system and high interest rates will curtail the level of economic activity. Furthermore, higher interest rates on public debt will imply that the government must increase its primary surplus, regardless of whether its fiscal stance prior to the crisis was adequate or not. This fiscal retrenchment will also have a recessionary impact. Finally, the depletion of international reserves will lead to a currency devaluation, which—depending on the export-price elasticities and the import-substitution elasticities--can be contractionary in the short-run. The extent of the contractionary effects will depend on the amount of external financing available from public sources such as the IMF, the development banks and bilateral sources as well.

Once faced with a crisis, a government can respond with alternative combinations of macroeconomic—that is, fiscal, monetary and exchange rate--policies. One typical choice which governments face is whether to rely on exchange rate depreciation or high interest rates to restore balance in the current account and build up international reserves. At the bottom of the discussion is which measure will restore confidence in private capital markets faster. Interest rate spikes impose a heavy toll on the domestic

banking system, and can cause bankruptcies and wipe out distressed debtors. However, high interest rates may be the only way to lure private capital to come back to—or, at least, not to leave—the country, while relying on exchange-rate adjustment could erode confidence further. The counter-argument is that high interest rates can cause a banking crisis and put the fiscal accounts under such severe strain that investors may deem the situation unsustainable. If that were to occur, high interest rates would be destabilizing.[6] On the other hand, devaluations can also be destabilizing when countries have a large share of their liabilities denominated in a foreign currency.

In the 1980s, when LAC countries featured large fiscal imbalances and sharp exchange-rate misalignments, the typical adjustment program included a reduction of the government deficit and a devaluation of the domestic currency. In the 1990s, when fiscal imbalances are not pervasive anymore and the countries' are highly integrated with the international financial markets, relying on short-term interest rate spikes has become a more widely utilized instrument to restore balance in the macroeconomic account as exemplified by the Mexican crisis in 1995 and the more recent episodes. As should be evident, the right response will depend on the individual country's circumstances.

It would be nice to have a clear-cut answer to the policy dilemmas in terms of their impact on growth and income distribution of alternative macroeconomic policy combinations, but there isn't one. Clearly, the macroeconomic policy mix will have tradeoffs in several dimensions. One such tradeoff is the inter-temporal impact of different policy combinations. Some policy combinations might result in a sharp contraction of GDP in the short-run but could be followed by a quick recovery. Others may yield a more gradual emergence from the crisis. Another such tradeoff is the distributive impact of alternative policies. Currency devaluations, high interest rates, and reductions in the fiscal deficit will affect different groups differently. There will be cases in which some of the poor are hurt while others are not (the impact of a devaluation on the urban poor vis-à-vis the rural poor, for example). It is these tradeoffs which make the task of designing poverty-sensitive macroeconomic policies so much more difficult. The difficulty is compounded by the fact that we know really little about what is the best analytical tool to assess these tradeoffs, let alone do we have an idea of their order of magnitude for specific countries.

[6] In times of severe crisis, governments may also consider whether to default on their obligations—or, less drastically, to impose a unilateral moratorium—and/or introduce capital and exchange controls. While the consensus among mainstream economists and international financial institutions is that such measures are not advisable because they may cause irreversible damage to the country's reputation, some forms of capital controls (such as a tax on short-term capital inflows) introduced during good times are less subject to criticism. Furthermore, more shall be known about the consequences of introducing capital and exchange controls by following their impact in Malaysia.

Fiscal Adjustment

In addition to the macroeconomic policy mix, governments will make choices on how to implement the necessary measures to raise government revenues and cut public (non-debt) spending. How these are implemented will have important implications in terms of who bears the burden of the adjustment process and whether the poor are awarded some protection or not. While public spending is characteristically unequally distributed prior to a crisis, there is a particular concern over the cost of cutbacks in core services for the poor. There is widespread concern that fiscal retrenchment is frequently ad hoc or across-the-board. In particular, there is concern that spending on primary education and health care and, in particular, spending on programs targeted to the poor is not protected from the cutbacks in relative terms. This happens because the fiscal adjustment has to be undertaken with speed and in periods of immense political pressure from the groups who have access to the government's budget. For the sake of speed, proportional cuts are easier to implement both from a technical and political economy point of view. There is at least a perception that the focus of action is to bail out the rich (externally or internally) and not to protect asset losses of the poor.

Safety Nets

In the past, Latin American governments have responded to the social costs of the economic crises in various ways. Measures ranged from food assistance programs, unemployment insurance, social funds, extension of health care coverage to the unemployed, scholarships for children, training and retraining programs and work-fare programs. However, more frequent than not, the overall response was too little, too late. What are the lessons?[7]

First, tackling social issues means putting them at the top of the agenda. Too often in the Latin American crises, policymakers' energy is only devoted to restoring macroeconomic stability and implementing structural reform. Second, the design of the response is crucial. Even in the case of the Social Emergency Funds, designed to cushion the social costs of economic adjustment measures, success was at best mixed

[7]Lustig and Walton, 1998.

because beneficiaries were not necessarily those most affected by the crises. In Mexico and elsewhere, general subsidies were cut without the introduction of effectively targeted alternatives. Of greatest importance is the need to maintain support for core education and health services to avoid irreversible losses in human investment. This was done poorly in Latin America in the 1980s, as evidenced by the slower progress in health and education indicators mentioned above. In the 1990s, Argentina waited until 1997 to introduce an emergency employment program despite the sharp rise in unemployment during the prior years and despite the fact that the existing severance payment and small-scale unemployment insurance schemes were not safety nets for the unemployed poor. Third, evidence suggests that programs put in place and operating before crises hit (albeit on a smaller scale) are better equipped to protect the target population than ad hoc emergency measures.

At present, most Latin American and Caribbean countries still do not have adequate mechanisms to mitigate the impact of adverse shocks on the poor and temper the unequalizing character of economic crises. While there is widespread perception that social funds were put in place for precisely that purpose, a closer examination reveals that most Social Investment Funds were more effective at building small-scale social infrastructure than they were in creating employment opportunities for those hurt by the emergency. In fact, most countries in the region lack effective private or public insurance markets for consumption-smoothing safety nets which could serve to protect the poor from output, employment and price risks associated with systemic adverse shocks.

A recurring problem is that, because the institutional mechanisms to protect the poor from the brunt of the shocks are not in place beforehand, responses have to rely frequently on improvisation, or programs that were designed for purposes and beneficiaries other than those affected by the crisis. Emergency responses to emergency situations often lack the time for the adequate technical analyses that are needed both to clarify the socio-economic profile of groups most vulnerable to the adverse shocks, and to evaluate the cost-effectiveness of different social protection options.

From the experience of the 1980s we learned that countries did not undertake fiscal adjustment with the poor in mind in that sometimes programs that were not necessarily expensive, but benefited the poor, were eliminated or cut in the same proportion as other budget items. Latin American countries, with the possible exception of Chile, did not have mechanisms to protect the poor from the impact of the crisis and adjustment policies.

During the 1980s, by devoting most of their energy to stabilization efforts and the elimination of price distortions, the international financial institutions (the IMF, the IDB, and the WB) neglected to emphasize the protection of the poor through a more careful assessment of the fiscal cuts and the introduction of adequate safety nets.

In the 1990s, there has been important progress made in incorporating the notion of social protection in adjustment programs. The notion of protecting, in real terms, pro-poor programs was introduced in the fiscal adjustments in Argentina and Mexico in 1995, and more recently in Argentina, Bolivia, Brazil and Venezuela. For example, in the case of Venezuela, the Government agreed to undo a budget cut on programs targeted to the poor as a result of the Bank's involvement. In recent loans for Argentina, Bolivia and Brazil, for example, the Government agreed to real fiscal targets for several safety-net programs. Also, the implementation of consumption- or income-smoothing safety nets is taken more seriously: the employment program TRABAJAR in Argentina; and PET in Mexico are examples of this. But the degree of improvisation in the responses is still high and the budget to introduce a counter-cyclical component is not necessarily there.

It should be noted that, relatively speaking, the cost of safety nets targeted to the poor should be manageable even under more severe fiscal constraints. For example, the budget of TRABAJAR was equivalent to 0.11% of GDP and 0.73% of total government spending in 1997.

Developing Adequate Responses [8]

Social Monitoring and Early Response

It is recommended that governments put into place a Social Monitoring and Early Response Unit (SMERU) system.[9] The objective of the SMERU would be to provide rapid real-time qualitative information to governments and donors on crisis-related conditions and on the operations of social safety net programs in urban and rural areas. Such a system could enable community monitoring of crisis response programs, disseminate information about the design and intended operation of safety net

[8] This section draws from Lustig and Walton, 1999.
[9] Such a unit was created in the recent crisis in Indonesia.

programs and establish specific mechanisms for query and feedback It would also mount a capacity for rapid field assessments which could produce both quick-turnaround reporting on "danger" signals, and mobilize research to investigate specific thematic issues about the social crisis, such as household coping mechanisms, migration and support networks, gender differences, etc. Finally, it would serve to produce quick turnaround reports using a range of qualitative techniques (rapid appraisals, participatory rural appraisals, key informant interviews, focus groups, etc.).

Assess impact of Macroeconomic Policy

In order to design macroeconomic policies that carry less harm on the poor, it must be determined how different choices over fiscal-monetary policy and exchange rate adjustment affect different groups, especially via labor demand and price effects. The tradeoffs associated with external and internal financial workouts (including options for debt write-downs, and re-capitalization and restructuring of banking systems) between internal and external confidence, and between efficiency and the present and future fiscal burden should be identified and used to inform policy.

It is also key to determine precisely how structural reforms—trade liberalization, price reforms, privatization, opening to foreign investment, labor market reform etc.—impact different groups in the short and medium term. In the same vein, the costs and benefits of alternative sequences should be systematically evaluated.

The context for any analysis should be based on an assessment—at least qualitative—of the overall distributional effects of a crisis, or alternatively, the allocation of the costs of a shock and the required adjustments in relation to the three areas of changes in labor demand, prices, and the value of assets. Such an analysis may include the following aspects:

1. An analysis of the intertemporal tradeoffs between reduced consumption declines (for different groups) in the short run and longer-term adjustment and growth must be determined and must inform the policies pursued in times of crisis.
2. An analysis of alternate fiscal-monetary policy and exchange rate adjustment programs in terms of their effects on different groups, especially via labor demand and price effects.

Additionally, in designing and choosing from various external and internal financial workouts (including options for debt writedowns, and recapitalization and restructuring of banking systems), the tradeoffs between internal and external confidence, efficiency and the present and future fiscal burden must be determined and must inform the selection of policies pursued.

It is clear that currently fully satisfactory tools are not available and short-cut methods will be needed. Conceptually, the problem is of adjustment and transition in a general equilibrium context—computable general equilibrium models (e.g. of the macro-micro kind) can usefully inform options but are generally highly sensitive to parameters. Initial analysis can be done of a more partial character, linking impacts of economy-wide developments, especially labor demand and relative price changes, to the profile of key socio-economic groups, drawing on existing poverty profiles and survey information.[10] There will be no substitute for tracking outcomes of different groups.

Poverty-sensitive Fiscal Adjustment

Direct public action, linked to public spending, is the most obvious area for pro-poor adjustment, and is the domain where there is the largest set of lessons from experience. However, this area can also be particularly difficult because of weak information, political pressures to preserve fiscal support to the non-poor, and institutional rigidities (for example, it is often difficult to even conduct comprehensive public spending reviews in large countries). The design of a fiscal adjustment should be based on the above assessment of the impact of likely labor demand and price shocks, and on both the short and long-run effects of the processes outlined above on different groups. It is useful to separate overall services from safety net instruments, although in practice these are linked.

Analysis done in order to design such pro-poor adjustment policy should include an assessment of the distributional effects of spending on social and economic services (in terms of both labor demand and service provision). This can draw on considerable work on the role of public services, and incidence studies. The spending lines that are of particular value to the social and economic conditions of the poor should be inventoried and their continued support ensured. Examples of such programs are those in the

[10] See, for example, the method proposed by Kanbur, 1986.

areas of basic education, preventive health, rural roads, irrigation, water and sanitation, slum upgrading programs.

It is equally important to determine what spending lines can be cut to preserve the programs that have been identified as pro-poor. Spending on programs that primarily benefit the non-poor can either be reduced or delayed during times of fiscal crisis. Along these lines, it is important to recognize that reducing middle class services or subsidies is also a question of managing the political economy. Therefore, action in the political arena is necessary in order to garner and sustain support for said reductions so that pro-poor spending can be expanded, or at least preserved, during the crisis.

Safety Nets

There are examples of good practices inside and outside the region of safety nets that can work well. Furthermore, there is no reason why social funds cannot be adapted to function as safety nets when the need arises. Because many governments lack the resources to put social safety nets in place, the alternative of setting up social funds proved useful both to mobilize external resources and to respond rapidly to pressing needs.[11] Whatever their form, implementing efficient and cost-effective safety nets to cope with emergencies can be of great value in the quest for greater social equity in the region.

Safety nets must be designed to deal with both individual and systemic risks faced by the poor. Models for such programs can draw on past and ongoing work on the optimal design of safety nets. Since information and capabilities will be limited, especially in a crisis, designs that have self-targeting properties are particularly important. When self-targeting is not feasible, other methods should be used.

One option to explore is to determine if there is the institutional basis for significant expansion of workfare, which is generally the instrument of choice for poor workers. For example, the feasibility of implementing a program such as the Argentinian Trabajar program can be ascertained.

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[11]See Inter-American Development Bank, 1998.

Second, it can be assessed whether or not subsidies for poor households to keep their children in schools can be increased; for example, along the lines of the model of the Brazilian Bolsa Escola program, the Mexican Progresa, or the Program of Family Assistance (PRAF) in Honduras.

Third, programs affecting early childhood development (e.g., mother and child feeding programs) should be expanded if possible.

Additionally, mechanisms can be put into place in order to provide transfers to the poor who cannot work, such as the old, the sick and the disabled. Programs can also be designed or activated (e.g. for severance payments) for the non-poor suffering from lay-offs, as long as such programs do not involve labor market distortions or divert transfers from the poor.

The impact of micro-finance on the poor remains controversial, but it can potentially play a role both in consumption-smoothing and in rebuilding capital after a shock. It should be determined whether or not micro-finance programs are under strain and, if so, if they can be fortified so that they and are equipped to play a positive role during times of crisis. They should also be protected from large shocks (whether the shocks are in the form of the financial crisis in East Asia or floods in Bangladesh). Additionally, there may be a case for temporary subsidies to micro-finance institutions to support post-shock recovery, if such subsidies can be administered without jeopardizing the institutional objectives of financial sustainability.

Institutional issues

Short-run responses will often run up against issues of institutional capacity. It is vital that there exist reasonably effective core central, or especially local, government agencies that are not subject to corruption or political capture in order to effectively administer pro-poor programs in times of crisis. Multiple channels and local participation should be used to both increase effectiveness and accountability. This is one of the objectives of setting up the Social Monitoring and Early Response Unit referred to earlier. The crisis can also be used as an opportunity to further the longer-term objectives of decentralization and increased accountability of government and other agencies.

Governments can also look to social funds as viable short-run alternatives, if the social fund (or social fund-type mechanism) supports, rather than undermines, longer-term institutional objectives, with "parallel" institutions that can swiftly be integrated into core governmental structures during times of crisis.

It is important also to include the richer sectors of society in the consensus-building part of formulating crisis response strategies that are pro-poor. This will improve the chances of such strategies being successfully designed and carried out.

Labor conditions

While the Bank has traditionally steered clear of taking a position from a rights perspective, much of the actual engagement will relate to core rights. It is proposed that the approach take an broad labor market perspective, assessing how policy choices can increase the degree to which the adjustment takes account of the interest of all workers, with respect to employment opportunities and labor conditions. With respect to the specific rights, a reasonable approach could be to assess whether either the crisis or the response is likely to lead to a deterioration of core rights. In light of this, it is necessary that existing rights to association and collective bargaining are respected during times of macro-crisis.

With respect to labor, it is also vital that unions and representatives of informal workers are included in the debate over which policy directions to take in confronting the crisis. Additionally, labor market reforms, which may reduce acquired rights of formal sector workers, can be designed both to foster better overall labor prospects and to arrive at reasonable settlements for those adversely affected by the financial crisis.

Countries should also be aware of a possible heightened risk of the incidence of exploitative forms of child labor during times of macro-crisis, and should implement specific policies to deter this from happening. A combination of subsidies (notably to keep children in school) and civil society engagement may reduce this risk.

Similarly, nations should also be aware of the possibility of women being subjected to heightened discrimination or abuse in the workplace during such times and can look to unions or civil society to prevent or remedy this phenomenon.

Effects on the social fabric

As noted above, this domain is probably least-well treated—at least in Bank-supported work, but is often of great societal concern. While responses may not be clear it is recommended that the issues be raised and explored.

Countries must assess the capability of existing community-based or risk-management mechanisms (a dimension of social capital) to cope with times of severe, country-wide crisis. Such mechanisms may be under heightened pressure and may not be equipped to perform the social protection role that they do under other circumstances. Policies must be formulated to compensate for this and to supplement these traditional mechanisms during times of macro-shocks.

It is also necessary to assess whether or not national distributional conflicts are exacerbated by economic crisis, and take this into account in the design of policies to be pursued in times of crisis. It can also be determined how effective the existing societal mechanisms are for conflict resolution.

There is also a link between financial crisis and violence that is worthwhile to assess. It should be empirically ascertained whether or not there exists the risk of increased violence (including within families) as a consequence of worsening economic conditions and services. If such a link is found, mechanisms for direct action to prevent this need to be designed, and put into place during times of crisis.

Finally, it should be ascertained weather weak or corrupt governmental institutions become subject to further worsening and loss of credibility as resources and salaries decline, or under conditions of political transition. If so, safeguards must be put into place to prevent this from happening and exacerbating the crisis conditions.

Information, diagnosis and public debate

Information plays a central role (in and out of a crisis) in understanding the sources of changes in welfare and the impact of alternative responses, in informing societal debate on options, and in fostering accountability through increased transparency and providing information on programs to civil societies and affected communities. A minimum set of key indicators for tracking the conditions of core socio-

economic groups should be established and incorporated into the monitoring of quick-disbursing operations to support countries in crisis.

Statistical services also must provide current, and publicly available information on the shifting pattern of welfare and vulnerability. Good participatory surveys of individual and community conditions and developments should be designed and carried out in order to complement quantitative sources of information. Similarly, a sound structure for evaluating the impacts of programs on an ongoing basis, using a range of quantitative and participatory techniques, is vital. There is also a dire need for publicly available information on the intended and actual use of programs. Multiple actors, including civil society and the press should have access to such information in order to increase transparency and accountability. Finally, countries must develop effective systems to assess, synthesize and debate issues and policy options. In this area, short-run outside action can both support information generation and sharing, and foster longer-term institutional development.

Permanent structures for crisis-management

Economy-wide or geographically concentrated crises will always be with us—whether from the weather or future terms of trade or financial shocks—and this will be true however effective the learning is from the latest crisis. Rather than thinking about ways to respond when we are hit by a crisis, we have to build the countries' development strategy (including into short-run adjustment responses) the institution-building necessary for countries to better deal with the human dimension of future crises.

The key issue is to design institutional structures for reducing or managing the risks that households face. Many of the elements of such structures are known, but tend to be introduced in a rush in the midst of a crisis, when they are least effective, and too often end up in the 'too little, too late' (or sometimes 'too much too late') category. Management of risks should be as much a part of long-term strategy as investing in economic or social services. The core of such a system is likely to involve:

i. expanded understanding over the impacts on growth and income distribution of alternative macroeconomic policy mixes;

ii. a structure of safety nets that can expand counter-cyclically when shocks occur, without creating longer-term distortions;

iii. a menu of piloted activities that could be expanded—and of spending lines that could be cut when aggregate fiscal cuts are required; and,

iv. information systems to track changes and impacts over time.

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Table2.B. Inequality measures (Gini) before and after recession years

Country	Year of Recession	Gini before recession		Gini the year of the recession		Gini after recession	
Argentina[1] (Greater Buenos Aires)	1985	0.40	(1983)	0.40	=	0.45	(1988)
Argentina[2] (Greater Buenos Aires)	1989	0.44	(1986)	0.53	+	0.45	(1992)
Argentina[3] (Greater Buenos Aires)	1995	0.36	(1994)			0.38	(1996)
Brazil[4]	1990	0.61	(1989)	0.61	+	0.59	(1992)
Chile[5]	1982	0.53	(1980)	0.54	+	0.56	(1984)
Costa Rica[6]	1982	0.40	(1980)	0.42	+	0.38	(1984)
Dominican Republic[10]	1985	0.42	(1984)			0.51	(1986)
Dominican Republic[11]	1990	0.51	(1989)			0.52	(1992)
Guatemala[2]	1982	0.48	(1981)			0.53	(1986)
Honduras[7]	1994	0.55	(1992)	0.55	+	0.55	(1996)
Mexico[12]	1986	0.43	(1984)			0.47	(1989)
Mexico[8]	1995	0.48	(1994)			0.46	(1996)
Panama[4]	1983	0.48	(1980)			0.52	(1986)
Panama[4]	1988	0.52	(1986)			0.57	(1989)
Paraguay[7] (Urban)	1986	0.46	(1984)	0.49	+	0.46	(1988)
Peru[9] (Urban)	1983	0.34	(1981)			0.39	(1984)
Peru[91] (Urban)	1988	0.39	(1987)			0.41	(1989)
Uruguay[11] (Urban)	1982	0.43	(1981)			0.40	(1983)
Venezuela[4]	1983	0.44	(1981)	0.45	+	0.48	(1985)
Venezuela[4]	1989	0.47	(1987)	0.46	-	0.46	(1991)
Venezuela[4]	1994	0.45	(1992)	0.50	+	0.47	(1995)

1 Fiszbein
2 Banco Mundial
3 Altimir and Becaria (UNDP)
4 Londoño/Székely
5 Mujica (Santiago)
6 Gindilng/Berry
7 Mejía/Vos
8 INEGI
9 GRADE
10 Aristy/Dauhajre (IDB/UNDP)
11 Deininger and Squire
12 Lustig/Szekely

Note: Blanks mean "not availiable"
"+", means an increase
"-", means a decline

"=", means no change

Table2.A. Poverty incidence measures before and after recession years

Country	Year of Recession	Before the recession		Year of the recession		After the recession	
Argentina[1](Greater Buenos Aires)	1985	28.0	(1982)	20.6	-	25.2	(1987)
Argentina[1](Greater Buenos Aires)	1989	25.2	(1987)	34.6	+	22.6	(1991)
Argentina[2] (Greater Buenos Aires)	1995	16.9	(1993)	24.8	+	26.3	(1997)
Bolivia[3] (Urban)	1986			51.0		54.0	(1989)
Brazil[4]	1990	40.0	(1987)	42.0	+	41.0	(1993)
Costa Rica[5]	1982	29.6	(1981)	32.3	+	29.7	(1983)
Costa Rica[6]	1996	20.0	(1994)	21.6	+		
Dominican Republic[5]	1985	37.3	(1984)			38.2	(1986)
Dominican Republic[5]	1990	35.7	(1989)			39.5	(1992)
Ecuador[12] (Urban)	1987			18.0		11.0	(1994)
Guatemala[4]	1982	71.0	(1980)			73.0	(1986)
Honduras[7]	1994	66.2	(1992)	64.5	-	65.6	(1995)
Mexico[8]	1986	13.9	(1984)			17.1	(1989)
Panama[9]	1983	40.6	(1980)			44.0	(1986)
Panama[9]	1988	44.0	(1986)			50.0	(1989)
Paraguay[10] (Urban)	1986	54.5	(1984)	47.4	-	38.6	(1988)
Peru[4]	1983	46.0	(1979)			60.0	(1986)
Peru[11] (Lima)	1988	31.0	(1986)			41.0	(1990)
Uruguay[4] (Urban)	1982	13.0	(1981)			19.0	(1986)
Venezuela[12]	1983	22.8	(1981)	32.6	+	34.8	(1985)
Venezuela[12]	1989	38.8	(1987)	44.4	+	35.4	(1991)
Venezuela[12]	1994	37.8	(1992)	53.6	+	65.5	(1996)

1 INDEC (in Márquez/Morley)
2 INDEC
3 Psacharopoulos et al
4 CEPAL
5 Londoño/Székely
6 DGEC
7 Gómez
8 Lustig/Székely (UNDP/IDB)
9 Londoño/Székely
10 Morley/Vos (UNDP/DIB)*
11 Psacharopoulos
12 Mejía/Vos

Note: Blanks mean "not availiable"

Estimates in underlined font are percentage of poor households instead of percentage of poor individuals
"+", means an increase
"-", means a decline
"=", means no change

Table 1.A.
Real Wage Index

Country	Year of Recession	Years Before Recession		Year of Recession		Years after Recession	
		-2	-1	0		1	2
Argentina	1985	99	125	100	-	100	90
Argentina	1989	128	124	100	-	105	106
Argentina	1995	100	101	100	-	100	99
Brazil							
Rio de Janeiro	1990	110	112	100	-	79	80
Sao Paulo	1990	108	112	100	-	88	85
Chile	1982	92	100	100	-	89	89
Colombia	1982	95	96	100	+	105	113
Costa Rica	1982	141	125	100	-	111	120
Costa Rica	1996	104	102	100	-	101	
Guatemala	1982	85	94	100	+	93	84
Mexico	1983	133	134	100	-	93	100
Mexico	1986	100	107	100	-	98	101
Mexico	1995	112	116	100	-	89	88
Panama	1988	107	109	100	-	108	101
Paraguay	1982	98	103	100	-	93	90
Paraguay	1986	109	104	100	-	112	122
Peru	1983	106	108	100	-	93	94
Peru	1988	156	168	100	-	55	48
Uruguay	1982	93	100	100	-	79	68
Uruguay	1995	102	103	100	-	101	101
Venezuela	1989	154	136	100	-	94	89
Venezuela	1994	130	119	100	-	95	73

Source: Calculated using data from ECLAC Statistical Yearbook's database
"+", means an increase
"-", means a decline
"=", means no change
Note: Blanks mean "not availiable"

Table 1.B.
Unemployment

Country	Year of Recession	Years Before Recession		Years of Recession		Years after Recession	
		-2	-1	0		1	2
Argentina	1985	77	75	100	+	92	97
Argentina	1989	78	83	100	+	99	86
Argentina	1995	55	66	100	+	98	85

Bahamas	1991	95				100		-	120		107	
Bolivia	1983	69		96		100		+	81		68	
Bolivia	1986	99		83		100		+	103		166	
Barbados	1982	92		79		100		+	109		125	
Barbados	1990	116		110		100		-	115		153	
Brazil	1990	88		77		100		+	112		135	
Chile	1982	59		45		100		+	95		93	
Costa Rica	1996			100		100		=	88		94	
Ecuador	1983	90		94		100		+	157		155	
Ecuador	1987	144		149		100		-	103		110	
Guatemala	1982	37		25		100		+	165		152	
Honduras	1982	96		98		100		+	103		116	
Honduras	1994	150		175		100		-	140		163	
Jamaica	1985	106		102		100		-	94		84	
Mexico	1983			64	*	100	*	+	86	*	67	*
Mexico	1986			102		100		-	91		81	
Mexico	1995	55		60		100		+	89		63	
Panama	1983	91		86		100		+	106		133	
Panama	1988	60		67		100		+	97		95	
Paraguay	1986			100		100		=	90		77	
Peru	1983	67	*	88	*	100	*	+	112	*	78	*
Peru	1988	61		90		100		+	105		75	
Uruguay	1982	62		56		100		+	130		118	
Uruguay	1995	81		89		100		+	116		116	
Venezuela	1983	61		70		100		+	128		128	
Venezuela	1989	102		81		100		+	113		104	
Venezuela	1994	91		76		100		+	122		138	

Source:Calculated using data from IDB Statistics Department

*Comes from Nora Lustig's "Politicas de estabilizacion, nivel de actividad, salarios reales y empleo (1982-1988)" in "La edad de plomo del desarrollo latinoamericano", compiled by Jaime Ros, Instituto Latinoamericano de Estudios Transnacionales y Fondo de Cultura Economica, Mexico, 1993.

"+", means an increase

"-", means a decline

"=", means no change

Note: Blanks mean "not availiable"