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The Way Forward - building political support and implementing effective responses to the global economic crisis

**Session III - Addressing the social impact of the crisis: safety nets, public goods, and workers' rights
Friday, 20 November 2009**

Remarks by The Honorable Mr. Max Sisulu, Speaker of the National Assembly of South Africa

The current global financial crisis is presenting significant economic and social challenges for many developing countries. We have seen the crisis deepening and sending, economies previously thought to be stable into recession. Contrary to initial forecast which projected that the crisis would be limited to the most integrated economies in the world, it is now widely recognized that developing countries are seriously hit by the financial crisis and the ensuing global economic meltdown. The impact of the recession is rapidly intensifying in developing regions in 2009, because of the sharp decline in exports and a drying up of private capital flows. 26 Low-income developing countries in Africa, Asia, the Americas and Eastern Europe have been identified by the International Monetary Fund (IMF) as being "highly vulnerable" to the adverse effects of the global recession in 2009. The achievement of the Millennium Development Goals, which set minimum objectives for a global effort to tackle many of the root causes of poverty, is being jeopardized by the economic crisis. Ten years of progress in poverty reduction has been undone in just a few months.

Unemployment has continued to surge in the first months of 2009. It now appears likely that the ILO's 'worst-case' scenario of unemployment increasing by 50 million worldwide in 2009 will turn out to be over-optimistic. Over 200 million workers could be pushed into extreme poverty, mostly in developing and emerging countries where there are no social safety nets, meaning that the number of working poor, earning below 2 USD per day for each family member, may rise to 1.4 billion. 60 per cent of the world's poor are women. Workers around the world, who are losing their jobs and their homes, are the innocent victims of this crisis: a crisis precipitated by greed and incompetence in the financial sector, but which is underpinned by the policies of privatization, liberalization and labour market deregulation of recent decades. The effects of these policies, stagnating wages, cuts in social protection, erosion of workers' rights, increased precarious work, and financialisation, have combined to increase inequality and vulnerability. The scale of this crisis serves as testimony to the failure of these policies. Without a radical response by governments, this most serious economic crisis since the Great Depression of the 1930s will transform into a social and, ultimately, political crisis as well.

The present economic crisis has again brought to the fore economic arguments on how best government's should respond to economic crisis. For some, the crisis also settled long-standing debates. However, today, few economists would argue that governments should do nothing or that governments should not intervene to support economic activity. The debate mainly centers on what the appropriate sets of policies are, to respond to the crisis.

THE IMPACT OF THE GLOBAL FINANCIAL CRISIS

Even though the outbreak of the crisis was in advanced economies, its effects have reached the developing countries through various channels and in different ways. While most developing countries are still struggling with the effects of the unprecedented high surge in food and energy prices, the current financial crisis threatens to exacerbate their situation and may reverse the progress made with regard to achieving the Millennium Development and national goals.

The original purpose of the MDGs paradigm was to measure and encourage sustainable pro-poor development progress and donor support for domestic efforts. Significant progress has been made on the MDGs, particularly in countries where government commitment is backed by strong policies and public expenditure. 120 Million people were lifted out of poverty between 2000 and 2005, meaning that the share of people living in poverty fell by 2.4% per year. Sadly, these gains are now being reversed.

The global economic crisis affects households negatively primarily through job losses and reduced working hours, which result in reduced incomes. This in turn impacts negatively on the nutritional value of the food people eat as poor households are often forced to switch from more expensive to cheaper, less nutritious food, resulting in weight loss and severe malnutrition, particularly in children. Less household income also makes them less likely to seek medical attention when they fall sick. Children are forced to drop out of school either to supplement the household income or because their parents can no longer afford school fees or travel. Many people are at risk of falling into extreme poverty when catastrophic health events coincide with people losing their jobs and livelihoods.

THE IMPACT OF THE CRISIS ON SOUTH AFRICA

The global financial crisis and recession resulted in serious economic challenges for South Africa, including contraction of the economy by 1.9 percent, a decline in tax revenues, increased borrowing and larger budget deficit, declining revenue in the face of increasing pressure on social programmes, especially the social security grants, as well as a decrease of 3.4 percent in aggregate employment in the first half of 2009. The highest ratio of jobs lost is in low-income categories such as agriculture, domestic work and the informal sector. In February 2009, government, business, labour and community representatives concluded an agreement that seeks to counter the impact of the world economic crisis on the real economy. Some of the key elements of this framework includes:

- A combination of countercyclical fiscal and monetary policy measures to support economic activity;
- expansion of the public investment programme;
- stepping up measures to combat customs fraud and illegal imports;
- encouraging local procurement of supplies and services to support employment levels;
- strategies to help vulnerable sectors; and
- development of investment incentives to create “green” jobs.

SOUTH AFRICA’S RESPONSE TO THE CRISIS

Most of the developed countries’ interventions to the impact of the crisis have been through bail-outs of financial institutions and motor manufacturers. South Africa has opted for a broad stimulus package that has economic and social components. The measures that South Africa seeks to implement are:

- **Investment in public infrastructure** – expanding and improving the road and rail networks, public transport, and port operations, dams water and sanitation infrastructure and housing construction, as well as education and health infrastructure. This is something that would benefit the economy for generations to come.
- **Social grant system** – South Africa has a comprehensive social assistance programme aimed at reducing poverty, contributing to the social cohesion and having a positive impact on the economic opportunities of households. The provision is Government’s biggest poverty relief programme, paying out in the region of R50 million per annum to over 9 million recipients.
- **Worker’s rights** – organized business undertook to urge and encourage companies to do everything in their power to avoid retrenchment as a result of the global economic crisis.
- **Revenue** – Government has allowed revenue to fall and for the first time borrowed to protect public spending.

- **Savings and reprioritization** – Government has embarked on a deep and far reaching savings and reprioritization exercise. In phase one, it has been able to find about R14.5 billion at national level and about R 12.6 million at provincial level.

ROLE OF PARLIAMENT

In general parliaments fulfill five key functions, namely, representing the people, passing laws, financial scrutiny, overseeing executive action and international participation. Through these functions, parliaments have an important role to play as the central institution of democracy. Parliaments embody the will of the people in government and must ensure that they are truly responsive to the needs of their constituents. Essentially Parliaments must help solve the problems that people are confronted with their daily lives. Through legislating, Parliaments have the task of adapting society's law to its rapidly changing needs and circumstances, and through oversight of the executive, Parliaments must ensure that governments are fully accountable to the people. South Africa has a political system where the executive is collectively responsible to Parliament.

KEY LESSONS FROM THIS CRISIS

- government has a strong role to play in stabilizing the economy, through its fiscal and monetary policy as well as through the regulation of the financial sector;
- countries should take steps to protect jobs through various policy measures;
- having a low debt to GDP ratio going into a crisis is a huge advantage;
- governments should use the crisis to correct structural weaknesses in the economy including stepping-up investment and skills development;
- having a sound social security net that is able to cushion individuals during a crisis is essential for economic and social stability;

CONCLUSION

The crisis negatively impacts on a number of important sectors amongst which are employment, education, health and social security. While the crisis emerged in the developed world the impact has reached across the world.

The responses to the crisis manifested themselves at a macro and micro level. At a micro level, responses focused more on the regulatory framework of banks in the developed world. At a macro level, the focus is more on the country specific responses to macro economic fundamentals. Irrespective of the varied responses, the crisis calls for a systematic and coordinated approach to manage its consequences.

Parliaments also have a very important role to play in addressing the Global Financial Crisis. Although its functions are mostly centred around overseeing government action in the latter's efforts to mitigate the effects of the Crisis, the role parliaments could play in this regard should not be downplayed or underestimated. On the contrary, it is the responsibility of parliaments to ensure that the livelihoods of the people they represent are shaped by the implementation of the best economic policies available, especially in developing countries. Parliaments are often accused of rubber stamping executive decisions, without fully engaging pertinent issues within the ambit of their functions as legislatures, often leading to the electorate becoming disillusioned with the institution and what it stands for. The Global Financial Crisis presents an opportunity to parliaments to change this perception through robust and proactive action, which would ultimately ensure that governments remain accountable and responsive to even the most vulnerable of people in society.

Finally; peace, stability and prosperity are indivisible. In today's globalized economy, all nations are far more closely tied together than ever before. The global reach of the crisis calls for prompt, decisive and coordinated action to address its causes, mitigate its impact and strengthen or establish necessary resolutions.