WAR ON WANT

FIGHTING GLOBAL POVERTY

Costing the Casino

A survey of the economic and social impact of currency crises on developing countries

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Executive summary

Introduction

The globalisation of financial markets has led to a succession of financial and economic crises. The events of the 1990s suggest that these crises can be expected to recur with increasing frequency, and that they will prove progressively more costly to deal with, in social and economic terms. A central factor in these has been the role of currency speculation.

These crises have had devastating consequences for the developing world, and a disastrous impact on the poor. Populations have been hit by rising unemployment, wage cuts, inflation and reductions in public spending. Vulnerable groups - women, children and the elderly - have been particularly hard hit. The progress of human development is being thwarted by the failure of governments and international institutions to regulate the global economy. War on Want is witness to this in its daily efforts to eradicate poverty in developing countries.

Asia

Asian countries had been the recipients of large quantities of foreign lending and portfolio investment. These capital flows increased the vulnerability of the so-called 'Asian Tigers' to changes on the financial markets. The Thai economy was the first affected following turbulence in the currency markets in July 1997; the effects then spread to neighbouring countries, with Indonesia and Korea particularly severely affected. Large numbers of companies went bankrupt or retrenched, leading to massive job losses and wage reductions

- **Unemployment** The ILO estimates that as a result of the crisis the number of unemployed worldwide rose by 10 million. In Indonesia in 1998, the level of unemployment was estimated at 6.6% by the Asian Development Bank. In Thailand the unemployment rate hit 4%, and in Korea it reached 8%. Large numbers of illegal foreign workers also lost their jobs, but their fate was not captured in official statistics. Many of the employed are in fact 'underemployed' in low-paid informal sector jobs. Of those who continue to be employed, many have suffered reduced working hours.
- **Rising poverty** The number of poor in the region rose to an estimated 90 million as a consequence of the slump. In Indonesia alone, it has been calculated that the incidence of poverty rose to 20% of the population; in Thailand the figure is 6.7 million, and in Korea 5.5 million.
- **Wider effects** The effects of the crisis were felt throughout society, although vulnerable groups such as the poor, unskilled workers, women and children were particularly hard hit. Rural areas were affected by the loss of remittances from those formerly working in the city. Children were affected by cuts in education and health budgets. Parents withdrew their children from school, and there was a rise in the number of children involved in prostitution and child labour. Women, who were concentrated in precarious forms of low-paid employment, were often the first to be laid off.

Latin America

In Brazil, unemployment rose to about 7% of the workforce, although unofficial estimates are much higher, and inflation increased by 8%. There were substantial cuts in the programme for agrarian reform (47%), health and housing, and environmental protection (47%). Social security programmes, which were in any case inadequate to meet the needs of Brazil's poor, were further cut. In Mexico, following the devaluation of the peso in 1994, unemployment doubled and wages fell by 30%. 2.2 million people fell into poverty, raising the numbers of the Mexican poor to 40 million. 14 million Argentines have already fallen into poverty as the result of the 2001-2 financial crisis, the full effects of which still remain to be seen. 2,000 Argentines a day are still falling below the poverty line, and the number without sufficient income to cover basic food requirements has doubled to 5.5 million. It has been estimated that 100 children a day are dying from hunger and disease.

South Africa

South Africa, already one of the most unequal societies in the world, has been affected by a series of currency devaluations in the aftermath of the Asian crisis, leading to price rises of 30% on basic foodstuffs, while the level of unemployment was 23%.

Turkey

Turkey's economy suffered a series of shocks in 2001-2 due to the anxieties of foreign investors, leading to a substantial decline in the value of the currency. The crisis caused 500,000 job losses, at a time when inflation was running at 30% and unemployment at 20%.

Wider impact

These crises destabilised the lives of millions, exacerbating social divisions and eroding standards of living. In addition they had a negative effect on the economies of neighbouring countries and on their inhabitants. Countries emerged from these crises with increased levels of public debt and foreign ownership of their economies. Although there are signs of an economic recovery in Asia in terms of improved figures for economic growth, it will take considerably longer for employment and wages to return to their pre-crisis levels.

A Tobin tax

A reliance on volatile forms of short-term investment leaves the economies of developing countries exposed to sudden changes in financial markets. These crises were triggered by speculative trading on foreign exchange markets, which is increasingly undermining the ability of nation states to implement their democratically mandated economic and social programmes. As part of a package of measures, War on Want is calling for the introduction of a Currency Transactions Tax or Tobin tax – a small universal tax on foreign exchange transactions. A two-tier tax, consisting in a minimal tax rate on all transactions, and a higher rate activated at times of market turbulence, could act to calm market volatility. In addition it would provide resources that could be used for development.

Introduction

The cost of volatility

Most of the financial crises of the last ten years were triggered by, and their effects intensified by, speculation on currency markets. This speculative activity turned localised shocks to investor confidence into major financial crises. The foreign exchange markets have registered an astronomical rate of growth in the last three decades. In the early 1970s, only $18 billion dollars a day was traded on currency markets; by the end of the 1990s, the figure had reached $1.5 trillion. While this volatility on currency markets enables banks and investors to make multi-million dollar profits, it has led to extreme social distress in those countries which have found themselves the victims of financial crisis.

The volatility of international financial markets can have devastating effects on the economies of the developing world. Market instability limits the degree of control that governments possess over their economies, leading to restrictions on government spending on health and education, and ultimately widening inequalities of income. Financial crises contribute to social divisions and tensions, and impede the process of development. They call into question the benefits of financial deregulation, when weighed against the economic and social costs of the crises to which it may give rise, and suggest the need for the introduction of measures designed to stabilise financial markets.

- **Social costs**

These financial crises destabilised the lives of millions. The human costs have been severe, perhaps incalculable, and the effects of the crises continue to unfold. The poor have been affected by unemployment, cuts in wages, rising prices of essential commodities, and reductions in social services. Children were taken out of school, food has been in short supply, and levels of violence and prostitution have risen. Unemployment and the increased competition for survival have led to community breakdown. There has been a rise in political instability, with food riots and ethnic tensions in Indonesia, farmers protesting in Thailand and worker discontent in Korea.

- **Economic indicators do not tell the real story**

While economists infer evidence of a recovery in Asia, citing improved figures for GDP growth (6.8% in the crisis-affected economies in 1999 and 2000),[2] their figures do not take into account the plight of those who have been thrown out of work and into poverty by the crisis. Employment and wages take considerably longer to recover: the World Bank estimates that it will take seven years for incomes to return to their 1997 levels. The Asian Development Bank produced a study in that showed that the economies of the region may be on the road to recovery but the social impact of the crisis will deteriorate for some time. This document draws on the most recently gathered statistics on the social impact of these financial crises in order to explore the human repercussions of financial instability.

Box 1 - Speculation and the new financial crises[1]

The new financial crises reflect the changing nature of financial flows from north to south. Formerly official loans to governments formed a larger part of such flows, and crises were caused by the inability of governments to service these loans. In the 1990s, these flows consisted mainly in foreign direct investment, portfolio investment in bonds and shares, interbank flows and commercial loans to companies. The crises of the 1990s were precipitated by an abrupt loss in market confidence, leading to large outflows of capital. This loss of confidence was not accounted for by any substantial change in the country's economy. Currency speculation turned these localised shocks to the market into major financial crises, the effects of which then spread to other emerging markets through a process of contagion.

Currency speculation may occur when the devaluation of a currency is deemed probable. Local and foreign investors borrow the local currency and then convert the loan into a stronger currency. If the devaluation occurs, the speculator will be able to buy back enough local currency to repay the loan, and still make a profit. Speculation makes devaluation more probable: it increases the demand for foreign currency, depressing the value of the local currency. The expectation of devaluation can therefore be self-fulfilling. Even if a small number of speculators take the lead, this may produce herd behavior on the part of other investors.

Speculation is buying or selling money, shares or other financial instruments with a view to buying or selling again when prices have changed, in order to make a profit. Speculation serves no real economic purpose. In general, it further enriches institutions that think of investment in terms of short-term gain and not long-term stability. Ultimately speculation is gambling.

The nature of speculation is destabilising. It makes markets volatile by betting on changes in prices. In the currency markets this means changes in the price of the currency - the exchange rate. In times of crisis, the more bets there are the bigger the swings. When a currency is under speculative attack the force is often irresistible. Traders tend to exhibit 'herd behaviour' in following each other's lead.

1. South East Asia

The 1997/8 financial crisis

- **Crisis of confidence**

The immediate cause of the Asian financial crisis was a loss of confidence and sharp reversal of the direction of capital flows. Thailand, Indonesia and Korea had been the recipients of high levels of lending and inflows of portfolio investment from foreign banks and other investors. A rapid build-up of short-term capital inflows in the early 1990s followed the deregulation of capital controls and provided a means of financing development at a time of declining official aid budgets. Between 1990 and 1996 capital flows to East Asia averaged more than 5% of GDP.

In Thailand, the most extreme case, capital inflows averaged more than 10% of GDP. The Thai authorities sought to attract foreign investors by pegging the value of the baht to the dollar, and maintaining high levels of domestic interest rates, which encouraged borrowing abroad as well as foreign investment. These capital flows contributed to the appreciation of exchange rates and caused a reduction in international competitiveness. They also increased the vulnerability of these economies to a reversal of capital flows. Money gravitated towards the stock markets and property – areas promising a high rate of return. In 1997, as turmoil hit financial markets, these flows reversed in a short period to a net outflow of $12 billion.[3] Capital outflows in Thailand between 1996 and 1998 amounted to a massive 20% of GDP.

Net annual private capital inflows to Asia[4]

(Billions of US dollars)

	1984-89	1990-96	1994	1995	1996	1997
Net private capital flows	13.0	55.9	63.1	91.8	102.2	38.5
Net direct investment	4.5	32.2	43.4	49.7	58.5	55.4
Net portfolio investment	1.5	6.8	11.3	10.8	10.2	-2.2
Other net investment	7.0	16.9	8.3	31.3	33.5	-14.7
Net official flows	7.7	8.4	6.2	5.1	9.3	17.7
Change in reserves	-2.1	-29.0	-39.7	-29.0	-48.9	-17.2

- **Speculators attack**

> "Dealing profits increased in 1998 as the Asian currency turmoil continued through the first half of 1998 and wide margins and high volumes in customer driven business continued to underpin foreign exchange revenues". **HSBC Annual Report 1998.**

When investors began to sell the Thai baht, in July 1997, domestic savers transferred their money into foreign currencies in order to avoid the losses associated with devaluation, and speculators gambled on the likelihood of an imminent devaluation. This increased the likelihood of devaluation, precipitating the crisis they feared. Exchange rate depreciation gave rise to further outflows, as panic set in among international investors. The most severely affected currency was the Indonesian rupiah, which suffered a decline in value between January 1997 and July 1998 of 80%.

Depreciation of Major Southeast Asian Currencies[5]

	Currency As of 31/1/97	Rate/Dollar As of 20/1/98	Depreciation in percent
Indonesian rupiah	2375.0	10200.0	329.5
Thai baht	25.9	53.0	104.8
South Korean won	863.0	1638.0	89.9
Malaysian ringgit	2.4	4.1	68.2

Economic Impact

- **Financial crisis is translated into economic collapse**

Banks and businesses were heavily exposed to foreign loans, and therefore severely affected by the increased debt repayment burden caused by currency devaluation. There was a high level of domestic bank lending to the private sector, and many of these loans were shown to be risky.

The banking crisis, combined with rising interest rates, resulted in a contraction of credit and difficulties in obtaining capital which put otherwise viable firms under pressure. The devaluation of currencies pushed up inflation and increased the price of imported goods. These developments caused a sharp fall in output, consumption and incomes, and led to a massive rise in the number of unemployed, and in the incidence of poverty. Businesses closed, laid-off workers, or reduced costs by cutting wages, benefits and working hours.

- **Regional variations**

Thailand, Indonesia and Korea were the countries most affected by the crisis as they had the highest ratio of short-term debt to GDP. Malaysia and the Philippines were less hard hit, as they had a significantly lower exposure to short-term foreign debt.

- **Declining economic growth**

Growth rates, which had previously averaged 7% p.a. across the region, dropped substantially in 1998. In Thailand, growth fell from 5.5% in 1996 to –1.3% in 1997, and fell further to –10.8% in 1998. In Indonesia the corresponding swing is from 8% growth in 1996 to a decline of 13.2% in 1998.

- **Recovery?**

There are signs of a recovery in Asia: growth in the crisis-affected economies was 6.8% in 1999 and 2000, and although it fell to 3.9% in 2001, was estimated at 5.1% for 2002. By 2000, both output and trade

Reuters/Popperfoto

exceeded their levels before the crisis. Indonesia registered a level of growth of 4.8%[6] in 2000; the corresponding figure for Thailand was 4.2%, for Korea was 8.8% and for the Philippines was 4.0%. Consumption, imports and exports in the region as a whole are on the increase. Exchange rates and inflation have stabilized in Korea, Malaysia and Thailand.[7]

Asian economies may be on the way to economic recovery but the social impact of the crisis will continue for some time. It will take considerably longer for employment and wages to recover. The World Bank estimates that it could take seven years before incomes return to their 1997 levels.

"Boom Bust Economics" GDP growth (%) – Selected Asian Countries

	1996	1997	1998	1999	2000
Thailand	5.5	-1.3	-10.8	4.2	4.4
Indonesia	7.8	4.9	-13.2	0.9	4.8
Korea	7.1	5.5	-6.7	10.9	8.8
Malaysia	8.6	7.7	-7.4	6.1	8.3
Philippines	5.8	5.2	-0.6	3.4	4.0

- **Regional impact**

Intra-regional trade accounts for 50% of international trade in Asia. Other countries in the region have been affected by the extreme fall in demand for imports in the worst affected countries, and by a loss of competitiveness due to large currency devaluations in the countries hit by crisis. There has furthermore been a loss of international investor confidence unrelated to economic fundamentals.

- **Inflation[10]**

High inflation has further eroded earnings. It is estimated that up to 20% of the population have fallen into poverty as a result of the crisis. In Indonesia, as opposed to Korea and Thailand, the major cause of poverty is not unemployment but high inflation, which ran at 78% in 1998. The price of antibiotics in Indonesia doubled between October 1997 and March 1998, and the consumer price index for food increased more than 50% between June 1997 and March 1998.

Inflation *(percent per annum)*

	1996[11]	1997[12]	1998	1999	2000
Korea	4.9	4.5	7.5	1.0	3.0
Indonesia	7.9	6.6	77.6	2.1	9.3
Malaysia	3.5	4.0	5.3	2.8	1.5
Philippines	9.1	6.0	9.7	6.7	4.4
Thailand	5.9	5.6	8.1	0.3	1.6

Employment

The ILO estimated that the number of unemployed around the world rose by 10 million directly as a result of the Asian crisis.

In 1998, unemployment rates quadrupled in Thailand and tripled in Korea. In Korea between October 1997 and July 1998 1.2 million people lost their jobs: i.e. about one in 20 workers. Six million people became unemployed in Indonesia in the second half of 1997.

Unemployment rates 1997-98[13]

	1997	1998	
	Unemployment rate (%)	Unemployment rate (%)	Number unemployed (millions)
Indonesia	4.7	6.6[14]	7.8[15]
Malaysia	2.7	6.4	0.6
Rep of Korea	2.6	7.7	1.5
Thailand	1.9	8.5	2.7

- **Migrant workers**

Many of the estimated 6.5 million migrant workers in East Asia,[16] who are not included in government statistics, have lost their jobs or have not been paid. There are a large number of illegal foreign workers in Malaysia whose job losses are unlikely to be captured in official statistics. By the third quarter of 1998, 250,000 foreign workers had left Thailand, 50,000 left Korea, and another 50,000 out of an estimated 2 million had left Malaysia.[17].

- **Under-employment and informal sector employment**

Increased under-employment and falling wages are perhaps more commonly experienced than open unemployment. The loss of formal sector jobs has been accompanied by an increase in under-employment and an influx of new workers to the informal sector, further depressing already low earnings. Divergent estimates of the unemployment rate in Indonesia, the country most dramatically affected by the crisis, are due to disagreement as to the proportion of displaced workers absorbed into informal sector employment. It is unlikely that this sector was able to absorb the huge numbers of the newly unemployed (up to 5 million according to ILO estimates), combined with the 2.8 million new entrants into the labour force, and the 5 million already unemployed in 1997. The collapse in output also resulted in a drastic fall in the demand for goods and services produced by the informal sector.

Many workers suffered reductions in working hours and salaries, or the non-payment of wages. Those who have been re-employed since losing their jobs have often found themselves taken on at a lower rate of pay, or for fewer hours.

- **Workers' rights**

The job insecurity that has resulted from the crisis has led to an erosion of workers' rights in the countries affected, particularly in Thailand. Employers have undermined working conditions and union membership by retrenchments, and by subcontracting work to temporary workers who are not paid benefits.

- **Rural impact**

The effects of the crisis were not confined to urban areas. A large number of the unemployed returned to rural areas and fell back on traditional support systems, not only depriving families of the income previously provided by their remittances, but imposing an extra burden on them. It was estimated that a million people throughout the region returned to their villages.[18]

Box 2: Pre-crisis employment situation

With the exception of Indonesia, Southeast Asia had enjoyed almost full employment during the previous two decades, thanks to high rates of GDP growth. Agricultural labourers and those engaged in low-productivity informal sector activities were absorbed into higher productivity modern-sector jobs, and enjoyed wage increases of 4 to 6% p.a. An absence of recessions meant that cyclical unemployment was virtually unknown. Female participation in the labour market increased: women took advantage of employment opportunities in the garment and electronics industries. Employment creation led to a major reduction in poverty in these countries.

Poverty & other social Impacts

The World Bank estimated in 1998 that an average drop in economic activity by about 10% in Indonesia, Thailand, Malaysia and the Philippines would result in a doubling of the number of poor in the region to more than 90 million. Many of the substantial gains in reducing poverty in the region were eradicated. Escalating prices of essentials such as food and medicines were accompanied by cuts in wages and social services.

Increase in poverty due to the crisis[19]

Country	Increase in the number of poor		Due to unemployment		Due to inflation	
	Millions	Percentage of population	Millions	Percentage of total increase	Millions	Percentage of total increase
Indonesia	39.9	20	12.3	30.8	27.6	69.2
Rep of Korea	5.5	12	4.7	85.5	0.8	14.5
Thailand	6.7	12	5.4	80.6	1.3	19.4

- **Social distress**

The economic slump provoked by the financial crisis caused widespread social distress. Prices increased while public spending decreased. A severe fall in incomes was accompanied by massive job losses as a result of bankruptcies and cutbacks in production. People were forced to move into low-paid and unregulated work in the informal sector, or suffered cuts in their working hours. Meanwhile, the price of essential commodities such as food and fuel rose. Rising inflation led to a drop in the level of real wages, and large numbers of people have fallen into poverty.

These factors have been amplified by the absence of social safety nets – the majority of displaced workers had to fend for themselves – and by the fact that social expectations had been shaped by a long preceding period of increasing employment opportunities and social development. Virtually all groups were affected, although the poor and other vulnerable groups such as women and children disproportionately so, since the poor spend a larger percentage of their income on basic goods, and therefore are harder hit by price increases and falling wages.

- **Cuts in public spending**

Public spending cuts intensified the effects of the crisis. Government revenues came under strain, as the tax base shrank. Options to increase budget deficits were limited by the conditionalities of bailout packages negotiated with the IMF. Governments had to impose expenditure cuts in response to the effects of exchange rate changes on interest bills and the need to finance liabilities in the financial sector and to finance corporate restructuring.

Indirect impact

- **Children and education**

Rising poverty causes parents to withdraw their children from school in order to send them out to work, compromising their future. It may never be possible to recover these students for the educational system, causing a permanent loss to these societies. Education budgets have also been subject to government spending cuts, leading to a reduction in quality of public educational services, while private schools have become increasingly unaffordable. Private schools, meanwhile, were suffering from a liquidity crunch due to uncollected tuition fees.

Children are likely to have been most severely affected by cuts in health spending: a study concerning the effects of the Latin American economic crisis on the health sector found that child malnutrition and infant mortality increased more appreciably than mortality among the population at large.[20]

- **Health**

There have been marked increases in ill health, partly because of a reduction in employer-provided health facilities, and the escalating price

of imported drugs, due to currency depreciation. Many hospitals with large foreign debts faced closure. In the public sector, budget constraints led to the laying-off of health workers and a reduction in investment; the quality and quantity of health services has been adversely affected.

- **Political tensions**

There was an increase in ethnic violence and political instability, particularly in Indonesia, where attacks on minority Chinese and Christian communities occurred. Increasing street crime and suicides were reported in all countries affected. Increased competition for survival, frustration and stress led to heightened household and community tensions.

- **Environment**

The crisis may also have had a negative environmental impact, in leading to a concentration on export-led growth to pay off the debts incurred in rescue packages, and increased foreign investment in logging, mining and oil exploration. Government budgets for environmental protection declined in Korea and Malaysia.[21]

- **Gender dimensions**

As with most developing country problems, women have been disproportionately affected. Women were concentrated in the most precarious forms of low-skilled wage employment. Textiles and garments, where they customarily make up a large percentage of the workforce, were hit hard by the recession and banking crisis, and wages and entitlements were cut back. Women, often perceived by firms as possessing other means of support should they lose their jobs, are in fact often heads of households (16% in Korea[22]). Those women who were previously unpaid family workers have sought paid work, mostly in the informal sector. In Korea, 61% of housewives hoped to find a paid job.[23]

Women are often the victims of physical violence stemming from heightened social conflict. An increased incidence of domestic violence has been reported in all the countries affected. The economic crisis has exacerbated gender inequalities that had appeared to be on the wane during the preceding era of prosperity.

- **Global impact**

The effects of the crisis were not confined to Asia, but have also spread to other emerging markets, particularly Argentina, Brazil, South Africa, Turkey and Russia. There has been a general fall in investor confidence in emerging markets, leading to capital outflows, devaluation and stock market collapses. Moreover, there has been a worldwide slowdown of GNP growth from 3.2% in 1996/7 to 1.5%% in 1997/8, which is in part attributable to the effects of these financial crises. From 1991 to 1997, Asia had accounted for half of the increase in world output.

Many poor countries suffered lower export prices due to shrinking world demand. Petroleum exporters were hit particularly hard, and the impact on African countries, dependent on primary commodity exports, was severe. World Bank projections of GDP growth in Sub-Saharan Africa for 1999 were revised downward from 4.5% to 3.2%.

The effects of the Asian crisis on distant economies[26] *(percent)*

Commodity price decline	Country	Fall in export earnings 1998	Fall in GDP 1998
Petroleum –25%	Angola	25	18
	Gabon	21	13
	Kuwait	25	14
	Nigeria	24	4
	Venezuela	20	6
Copper –31%	Zambia	26	9
	Mongolia	10	6
	Chile	10	3

Impact by Country

Indonesia

It is estimated that the incidence of poverty in Indonesia went up from 11% in 1996 to 20% in 1999.[27]

Selected economic indicators[28] *(Percentage change)*

	1996/97	1997/98	1998/99
Real GDP growth	8.2	2.0	-13.2
Consumer prices	5.2	12.9	77.6

- **The financial crisis**

After the collapse of the Thai baht, in July 1997, the rupiah declined in value by 63% by the end of 1997. As uncertainty mounted over the economic and political situation in Indonesia, the rupiah continued to plunge dramatically in value: in June 1998, it dropped to 14,900 to the dollar (from its June 1997 level of 2,450).[29] Indonesia's GDP declined by up to 16% in1998.[30] Interest rates were raised to prevent capital outflows, increasing the losses of indebted local firms, which are estimated to have amounted to more than $60 billion. The drop in the rupiah increased the value of foreign debt; debt default led foreign investors to pull out their money, which in turn led to further depreciation. Between 1997 and 1999, average per capita income fell from $800 to $300.

- **Inflation**

The devaluation of the rupiah led to a sharp rise in inflation, which has run to triple-digit figures. The price of basic foodstuffs such as sugar, soya beans and flour, rose by between 250 to 500%. In January 1997 the daily minimum wage bought 6.28 kg of rice; by December the figure had dropped to 4.76 kg, and by June 1998 it could only purchase 2.6 kg.[31]

Inflation peaked at 78% in 1998, and was 9.3% in 2000.[32] Around a quarter of all families cut spending on important protein-based foodstuffs such as meat, eggs and fish.

Urban households were more severely affected by the recession than rural households: while the rural mean income in Indonesia increased by 5%, the urban mean income fell by 40%.[33] Salaries fell by 30% and average household expenditure was down by 24% in real terms.

Price rises[34] *(rupiah)*

Commodities	Prices January 15, 1998	Prices February 15, 1998
Rice (1 kg)	1,800	3,500
Cooking oil (1 litre)	2,000	5,500
Sugar (1 kg)	1,600	2,200
Chicken (1kg)	4,500	6,500
Powdered milk (1 kg)	6,500	19,650
Instant noodles (1 package)	300	550
Soya (1 kg)	1,500	3,500
Bus fare (Jakarta-Surabaya)	21,000	28,000

- **Unemployment**

The social and economic costs of unemployment in Indonesia have been high. The progress achieved through the growth of modern-sector employment has been severely curtailed: about a fifth of these jobs have been lost, affecting 4 to 5 million workers and their families, according to ILO calculations, in terms of material deprivation and psychological costs. Thousands of workers were laid off, and unemployment in 1999 reached 6.4 million. The reason that job losses have not been higher is that there has been a shift in employment from the formal to the informal sector, an increase in the number of those working in agriculture.

Certain sectors were particularly hard-hit: according to some industry association estimates, 50% of the workers in the footwear and non-garment textile industries were retrenched, while an estimated 75% of construction workers have lost their jobs from high-rise construction sites and real estate developments. Those who received severance pay were able to weather the effects of the crisis, but casual workers did not receive severance pay.

The collapse in output and consumption, combined with high inflation, resulted in sharp falls in real wages in both the formal and informal sectors. Basic wages meet only roughly half of an individual's living costs.

- **Shortages and social breakdown**

Food shortages were increased by drought and a reduced import capacity. Cases of severe malnutrition were reported in remote villages. A condition of the IMF rescue package was to end subsidies on staples such as fuel and electricity, beans, sugar and flour. The social impact of the crisis brought to light underlying tensions, previously obscured by economic stability. It produced increased ethnic tension and violence, with food riots and riots directed against the ethnic Chinese and Christian communities. The violence which occurred in Ambon, Sambas, Aceh and East Timor is in part attributable to the tensions caused by economic collapse, and has led to the displacement of whole communities. A substantial rise has been reported in the number of those absorbed into prostitution in Jakarta in 1998.

- **Women**

Women have been affected by the increasing casualisation of labour. They tend to be more passive in the face of company rationalization measures, and are thus easy targets for retrenchments. Information on the incidence of violence against women is sporadic. Crisis centres in urban areas reported a doubling in the number of victims of domestic violence who came to seek help after the crisis began.[40]

Box 3: The Impact in Indonesia - Case studies

Fatima. Fatima lives in Kampung Rawa, an illegal settlement in West Jakarta. As a result of the crisis, she is unable to find work. "I used to work in construction, but now I can only find a week here and there and then I get laid off. It is difficult to eat even three times a day". She says, "In terms of education, many children don't go to school now because their parents simply can't afford the school fees". Due to the inadequacy of state welfare services, people are forced to rely on community support mechanisms: "If someone in our community gets sick and has to go to hospital we try and find the money between us, but it is really hard. It is very difficult for the poor but we have solidarity and we help each other".

Rumiyati. Rumiyati lives in Teluk Gong, an illegal settlement on the banks of a river in North Jakarta, which sprang up as a result of mass evictions. She practises traditional massage. She describes how the crisis has affected her life: "Before the crisis my income was good because I had many customers. I have family back in my village and I could afford to send Rp. 1,500,000 (approximately £100) a year back home. But since the crisis I have very few customers and I can't send back anything. I have just barely enough to eat. Also, food prices have more than doubled since the crisis started".

Caswin. Caswin also lives in Teluk Gong. He works in the informal sector doing any work he can find. "If there is only construction work I do it. Sometimes I drive a motorised rickshaw, and sometimes a motorcycle taxi. Before the crisis I could get Rp. 15,000 (about £1) a day; now I only earn between 5,000 and 7,000 (33 to 45 pence). We can't rely on the government. The government doesn't give a damn about us; they consider us illegal, and ignore us because we are poor. They only pay attention to us when we demonstrate and have rallies".

- **Education**

It was estimated that up to 25% of students dropped out of school due to their parents' inability to pay their fees, or in order to help their families by seeking paid employment.[41] The number of those involved in child labour and of street children has increased since the crisis: it is estimated that the number of street children tripled to 30,000-40,000.[42]

- **Health**

The health budget for 1998/99 was cut by 4% from its level in the previous year, the effect of which was magnified by the high rate of inflation. Medical supplies and equipment have become prohibitively expensive, as almost 70% of medical drugs are imported. Drug shortages caused health centres to close. Indonesia's health care system depended heavily on volunteers, many of whom had to engage in work to feed their own families. Visits to community health clinics by the under fives were down 50% between 1997 and 1998.[43] In the third quarter of 1998, 65% of children under three were anemic, and 50% were suffering from lack of micronutrients.[44] It is estimated that infant mortality rose by 30% as a result of the crisis.[45]

- **Environment**

Environmental concerns have been neglected. Many people were forced to take up destructive activities such as dynamite fishing and slash-and-burn agriculture. The government reduced the log tariff from 200% to 10%, leading to increased exploitation of forest timber.[46]

Thailand

6.6 million households said that they were worse off in 1998 than in 1996.[47]

Selected economic indicators[48] *(Percentage change)*

	1996	1997	1998
Real GDP growth	5.5	-0.4	-10.8
Consumer prices	5.9	5.6	8.1

- **The financial crisis**

By early 1997 there were signs of a growing loss of investor confidence in the Thai economy, with heavy selling on the stock markets, and speculative attacks on the baht. The baht was floated in July, and immediately depreciated by 20%.

- **Public spending cuts**

The IMF rescue package of $17.2 billion, approved in 1997, was conditional upon budget cuts, an increase in VAT and interest rates, a reduction of the current account deficit, and a reduction in subsidies and foreign investment.[49] The budget of the Ministry of Public Health was reduced by 14.6% in 1998,[50] and the community and social services budget by 7.6%. The government planned to 'streamline' the education system by firing 70,000 primary school teachers in 1999.[51] The contraction of public works has had an additional effect on the unemployment situation. Meanwhile, the Thai authorities spent $25 billion on propping up troubled financial institutions.[52]

- **Unemployment**

The economy was affected by the rising cost of imports and credit. Companies announced cost reduction measures, including job losses, and cuts in wages and benefits. Approximately 2.7 million people were unemployed in 1998 (or 8.5% of the workforce), compared to 0.4 to 0.7 million in 1996. It is estimated that in 1998 the number of those under-employed increased by 40%, to 7.4 million. The construction industry suffered the most, with employment falling by 34% by August 1998.[53] Many firms also significantly reduced working hours in order to cut costs, and reduced bonus pay and overtime. Wages fell back to 1996 levels.

The crisis has also affected migrant Thai workers working in neighbouring Southeast Asian countries, and migrant workers in Thailand. In January 1998 the Thai government announced its intention to repatriate the 600,000 foreign workers, mostly Burmese, working in low-paid fishing, agriculture and construction jobs, to make way for displaced Thai workers.[54]

- **Erosion of labour rights**

Workers whose wages and benefits were cut were forced to work longer hours in order to earn enough to survive, and labour rights were severely eroded by the insecurity generated by the crisis. Employers subcontracted work to temporary workers in order to circumvent the need to pay the kind of benefits enjoyed by permanent workers, and, in some cases, laid off older workers whose wages and benefits were higher in order to cut costs, and laid off union leaders and activists.

- **Rural impact**

64% of the total number of the unemployed were in rural areas, and 72% of the unemployed in villages depend on the agricultural sector.[55] Farmers comprise 60% of the working population, but account for only 11% of the country's wealth.[56] The price of agricultural inputs increased by 30%. High interest rates led to debt repayment problems in the countryside: the number of indebted farmers is estimated at 5 million.[57]

Large numbers of the unemployed returned to the rural economy. In the village of Sap Poo Pan in the north east, for instance, 40 of the 110 people working outside the village (out of a population of 260) had returned by January 1998.[58]

- **Price rises and poverty**

The price of food, fuel and basic services rose. Rice doubled in price (as of March 1998) from 25 to 50 baht per kilo.[59] The disadvantaged were most severely affected by the increased cost of living, as they spend a higher proportion of their income on basic goods.

- **Women**

Mass lay-offs occurred in the textiles and electronics industries where 90% of workers were women. The Women's Rights Protection Centre reported an increase in the number of reported cases of violence against women from 389 in 1996 to 812 in 1998.[60]

Box 4: The Impact in Thailand - Case study[61]

Payao Thurian. Payao Thurian was a woman worker at PAR Garment Limited. She was laid off in October 1997. Her husband is dead, so she has to take care of her nine-year old daughter on her own. Her income at the factory was 157 baht a day, out of which she had to meet the costs of 1,300 baht a month on utility expenditures, tuition fees of 1,000 baht a semester, books, school uniforms, and transportation costs. Since losing her job, she has sold almost everything she owned. She has spent her savings. Her daughter has to lunch at a temple. She is under considerable stress, fearing that she will no longer be able to support her daughter or herself.

- **Education and Children**

The government's 1998 education budget was cut by 11%.[62] Budgets for milk and lunch projects at the primary level were cut by 40 to 50%, and government scholarships have been cut.[63] The children of the disadvantaged have in many cases been forced to forgo meals. A survey found that the education of 45,000 students had been affected by their parents' job losses, as they were no longer able to pay their tuition fees.[64] It is estimated that 254,217 students have been withdrawn from education as a consequence of a loss of family income in the wake of the crisis.[65]

In early 1998, the Foundation for Children's Development surveyed 143 secondary-school students from rural provinces, whose parents were seasonal factory or construction workers.[66] It found that 10 had a family member who had been laid off, 11 had a family member with reduced income, and 19 had a family member who was unemployed because their firm had gone out of business.

Approximately 1.3 million children under the age of 5 suffer from malnutrition.[67] The economic situation led to an increase in social problems such as prostitution, and the Child Protection Foundation warned that the problem of child prostitution has intensified because of the crisis.[68] The number of street children has increased by 40%.[69] NGOs also report an increase in child labour and child beggars, while the instance of cases of child abuse rose by 10 to 15%.[70] The number of those involved in child labour has increased by 0.35 million: the figure for workers aged between 13 and 17 has increased to 13% of the workforce.[71]

- **Crime and suicide**

Crime levels have increased: crime in the Bangkok metropolitan area against property rose by 10%. In a poll at least 12% of workers laid off during the crisis stated that they had considered suicide.[72] Drug abuse has also increased.

- **Health**

Budget cuts and inflation forced many government hospitals to discontinue preventative medical programmes, and have significantly curtailed the resources allocated to investment expenditures. By 1998 the price of imported drugs had increased by 20 to 25%. Patients have transferred from private to public health care facilities: 92 government hospitals took 1.4 million patients in the first six months of 1998, which signals a 50% increase over the same period of the preceding year. It was estimated that 35% of private hospitals have closed by the end of 2001, due to difficulties in meeting debt repayments denominated in foreign currencies.[73]

Republic of Korea

Poverty increased from 3% in 1997 to at least 7.5% in 1998, and was expected to continue to grow.[74]

Selected economic indicators[75] *(Percentage change)*

	1996	1997	1998
Real GDP growth	7.1	5.5	-6.7
Consumer prices	4.9	6.6	7.5

- **Unemployment**

A relaxation of capital controls had given rise to massive borrowing abroad by banks and firms. By October 1997, non-performing loans by Korean enterprises amounted to $50 billion,[76] foreign banks became reluctant to release further funds, and the stock market and currency fell dramatically. In 1998 a rescue package was agreed with the IMF, conditional upon reductions in public spending and increases in interest rates. This had the effect of worsening the country's economic problems, by provoking mass bankruptcies. 17,613 companies went bankrupt in 1997.[77]

By June 1998, the unemployment rate had risen to 7.7% or 1.5 million,[78] and was expected to rise to above 2 million. The unemployment rate for 1999 was expected to remain at 7.4%.[79]

Workers have also been affected by the non-payment of wages: it was estimated that the amount of unpaid wages tripled between January and May 1998 to $336.4 million, as companies withheld pay in an effort to survive the crisis.[80] Korea, unlike other Southeast Asian countries, has

only small farming and informal sectors that could act as a buffer to absorb huge job losses in the cities.

- **Falling incomes and rising prices**

Real incomes had fallen by 20% at the end of 1998 compared with a year earlier, while the price of some foods rose by more than 20%, and fuel, power and water by 25%.[81] Government expenditure on health almost halved between 1997 and 1998.[82]

- **Social disintegration**

The incidence of suicide rose from 620 a month in 1996 to more than 900 a month in mid-1998, with unemployment often cited as the motive.[83] A rise in divorce, domestic violence and crime has been recorded. Seven times as many women than in the previous year reported being the victims of domestic violence to the Hotline for Women.[84]

Malaysia

Poverty was estimated to have risen from 6.8% in 1997 to 8% in 1998.[85]

- **Unemployment, and reduced public spending**

Economic growth, which was 7.7% in 1997, fell to -7.4% in 1998. Unemployment in Malaysia rose by 109,000 to 342,000 in 1998,[86] with the greatest impact in urban areas. Food prices rose by 8.9%, rent and fuel by 4.4%, and medical expenses by 6.2%. Women were particularly likely to lose their jobs, with potentially disastrous consequences for the 630,500 families headed by women. The country relied heavily on cheap foreign labour from neighbouring countries, which was unprotected by legislation. As many as one million migrant labourers lost their jobs and were sent home. Spending on education was cut by 18% initially. Many of the 54,000 students studying abroad were forced to return home after the government sponsorship programme was scrapped.

The Philippines

The number of poor is estimated to have risen from 40% in 1997 to 43% in 1998.[87]

- **Unemployment and falling incomes**

In July 1997 the *peso* was devalued in the wake of heavy trading in the foreign exchange market. The economy of the Philippines was less affected than that of other countries in the region, although the population has been hit by rising unemployment and prices and falling real incomes. The urban poor and fishing communities were hardest hit. More than 3,000 firms closed or underwent retrenchment in 1998, which is double the rate for 1997.[88] Open unemployment was expected to reach 11% by the end of 1998, with a decline in real wages of 3%. Inflation rose to 9.7% in 1998, and food prices rose by 6.4%.[89] There has been a reduced availability of medicines. The number of school dropouts is reported to have risen.

Reuters/Popperfoto

2. Latin America

Labour market indicators[90]

	Urban unemployment rate			Annual GDP growth rate		Annual rate of growth of real industrial wages
	1990	1996	1997	1990-97	1997	1990-97
Brazil	4.3	5.4	5.7	2.7	3.0	4.5
Mexico	2.8	5.5	3.7	2.1	7.0	-1.4

Brazil

- **The causes of the crisis**

In an endeavour to prevent a recurrence of the hyperinflation of 1994, and to secure a more stable environment for foreign investment, Brazil anchored its currency to the dollar. High interest rates were employed in order to attract the levels of capital inflows needed to defend the exchange rate, much of which consisted in volatile portfolio investment and commercial loans. This dependence on capital inflows increased the economy's vulnerability to external factors. High interest rates led to a steep escalation in the level of internal debt, which by 1998 had reached $265 billion:[91] expenditure on paying this debt exceeded Brazil's combined health and education budget.

During the summer of 1998, the Russian crisis raised fears on the part of international investors in Brazil, and $30 billion fled the country. Despite the negotiation of an IMF bailout package in the autumn, foreign investors continued to pull out, eventually leading to the collapse of the *real* in January 1999. Speculators attacked following the government's abandonment of the exchange-rate peg and within a few weeks the *real* had depreciated in value by 40%.

- **Unemployment**

Since the crisis in early 1999, there has been an increase in unemployment to about 7% of the workforce, or roughly 1.3 million people (although unofficial surveys estimate a rise of 17 to 20% in São Paulo[92]). This figure does not include informal sector unemployment, which has risen more sharply, although precise figures are not available.

- **Inflation and poverty**

Inflation increased by 8% in 1999.93 In January 1999 the price of a basic food basket in São Paulo increased by 4%,[94] while income per capita decreased in 1999 by 4.8%.[95] From these figures it is possible to infer that the number of poor has grown substantially.

- **Agrarian reform budgets cut**

The IMF called for reforms of Brazil's social security and taxation system. Exact figures are hard to establish, as budgets are subject to constant re-negotiation, and bear little resemblance to amounts finally disbursed: spending on a range of social programmes in the first quarter of 1999 showed average disbursements of only 7%.[96] In March 1999, following an agreement with the IMF, the government cut the budget available for agrarian reform by 47.1%, from $622 million to $329 million.[97] This cut has affected previously landless peasants, some of the most marginalised people in the country, who were in receipt of government-subsidised loans to assist agricultural production. The new system of agrarian reform offers credit lines with prohibitive interest rates and a short repayment period. Many settlers have been left with huge debts; some settlements have been closed, leading to migration back to the slums of the cities.

- **Reduced public spending**

$5.65 billion pledged by the World Bank and Inter-American Development Bank and described by the government as a social support loan turned out to be balance of payments support.[98] The government agreed on macroeconomic goals with the IMF in March 1999 which included a $17.2 billion public sector spending surplus to enable it to keep up debt repayments (which are estimated to be four times total federal government health spending[99]). Devaluation pushed up the impact of repayments on the external debt, while high interest rates have increased the cost of servicing internal debts.

- **Social security cuts**

Despite the IMF's stated objective of protecting budgetary social expenditures benefiting the poor, government spending on the social safety net was cut in late 1998 by $470 million.[100] New projects were left unfinished. The environment budget was cut by 47.4%,[101] and the education budget by 12% from $2.66 billion to $2.33 billion. The government cut the amount it spent on food rations in 1999 from $48 million to $23 million, affecting some of the poorest people in the country.[102] The subsidy on school lunches was cut by 35%.[103]

The government's social safety net, designed to reduce poverty in times of crisis, in any case contains notable gaps, specifically in programmes to address poverty in rural areas and the needs of indigenous communities, and lacks programmes that would generate incomes and employment. The programme to combat child labour only targets 3% of the 4 million working children of primary school age.[104] The allowance for the elderly only covers a fifth of the total number of elderly and disabled living in poverty.[105] The 1999 budget for family income supplements was cut by two thirds, and was destined to benefit only 36,700 out of 6.4 million eligible families.[106]

- **Wider impact**

Brazil is a leading exporter of sugar and coffee, and the devaluation of the *real* has had a negative impact on exporters of sugar and coffee in the Caribbean, Central America and Africa, Colombia and Indonesia. As Brazil accounts for roughly a third of Western Hemisphere output, its recession inevitably had an impact on the economies of the region (see for instance the effects on Argentina mentioned above).

Reuters/Popperfoto

Mexico

2.2 million people fell into poverty in 1995, raising the total number of Mexicans living under the poverty level to 40 million.[107]

- **The crisis**

Rapid liberalisation of financial markets in the late 1980s, along with high interest rates and negotiations over entry in NAFTA, led to a disproportionate growth in imports and capital inflows. Over $90 billion, mainly in the form of portfolio investments, flowed into the country between 1990 and 1993, the majority of which was invested in stocks and securities rather than physical assets.[108] Growing import consumption gave rise to a current account deficit of nearly $30 billion, or 8% of GDP in 1994, which the government financed by means of these capital inflows.[109] The level of domestic savings fell sharply, while borrowing rose to finance this boom in consumption. In this respect, events in Mexico differ from those in Asia, where countries maintained a near surplus on their trade balance and a high level of domestic saving.

In 1994 interest rates rose again in the US, the Chiapas rebellion broke out, and two leading figures in the governing party were assassinated, causing foreign investors to begin to return their funds to US financial markets. Under intense pressure from speculators, in December 1994 President Zedillo devalued the *peso*, causing foreign investors to panic. $5 billion fled the country over the next two days, and the *peso* fell in value from 3.5 to 7.5 to the dollar.[110] Within a few months, the Mexican stock market had lost half its value. In the wake of the financial crisis, Zedillo announced an austerity plan, including the imposition of higher taxes and interest rates and cuts in public spending.

- **Unemployment and falling wages**

In the first two months of 1995, 750,000 workers lost their jobs.[111] Unemployment doubled in 1995, and reached a figure of 3 million in 1996.[112] Real wages fell by 30% in value in 1995.[113] The average wage lost 54% of its purchasing power between December 1994 and July 1995.[113] Before the crisis, the minimum wage bought 67% of the basic basket of goods for a family of five; by July 1995 it bought only 53%.[115]

- **1996 figures**

In 1996, the economy had not yet recovered. GDP fell by 7%.[116] The rate of inflation was approximately 50%. Domestic consumption had fallen by 25%. Meanwhile, in the first quarter of 1996, $17.8 billion was spent on servicing Mexico's debt.

Argentina

14 million Argentines, or two-fifths of the population, have fallen into poverty as a result of economic crisis. 2,000 Argentines a day are falling below the poverty line, living on less than £2.76 a day.[117] The numbers without enough income to cover basic food needs have doubled to 5.5 million.[118] One hundred children a day die from hunger and disease.[119]

Argentina in crisis

Argentina faced a contraction of GDP by 4% in 2001, and an official unemployment rate that has risen to over 18%. It also had a $140 billion public debt as of January 2002,[120] when it defaulted on repayment, making this the biggest debt default in history (previously Russia held the distinction).

In December 2001 the government froze bank withdrawals to $1,000 a month (a restriction subsequently outlawed by the Supreme Court), to limit capital flight in advance of the devaluation of the peso. The peso, which had been pegged to the dollar, was floated on the currency markets in January 2002, and was heavily traded, falling by 41% in value. There are reports that prices rose by 20% in anticipation of the effects of devaluation.[121] Many big investors have already withdrawn their money ($20 billion left the country in 2001), leaving the poor and the middle classes to bear the brunt of the crisis. For this reason, the government has announced that debts of less that $100,000 were repayable in pesos. In order to soften the blow of the devaluation, the government introduced a fixed exchange rate of 1.4 pesos to the dollar, applicable to exports, essential imports and capital transactions.

- **Background – the currency board**

Argentina was the tenth richest nation in the world in 1913, but it had declined to the 56th by 2000. It was also seen as a model economy by neo-liberals, even as recently as 1999. How did it get into its present situation?

The explanation partly lies in the adoption of a system that made the peso convertible with the dollar (by keeping dollar reserves equivalent to the number of pesos in circulation). This was introduced in 1991 in order to prevent a return to the hyperinflation of the 1980s (when governments would simply print more money to pay workers, and inflation was running at 5,000% a year). The rise in value of the dollar made Argentine exports uncompetitive relative to the Brazilian real, devalued in 1999, and contributed to keeping the economy in recession. Maintaining the currency peg was a condition of IMF loan packages. Argentina had to pay heavily to maintain the peg. The interest charged to obtain dollars – about 16% - virtually cancelled out the benefits of an IMF $8 billion loan in August 2001: most of the IMF's money stayed in Washington to pay off creditors.

- **Escalating public debt**

A boom in foreign investment in the 1990s meant that, rather than restricting spending, the Argentine government was able to finance budget gaps by issuing international bonds. Argentina accounted for a seventh of all emerging market debt. Now that international investors are less sanguine about Argentina's prospects, this source of income has dried up. As the economy was growing at a rate less than that of the interest rates on its national debt - the Argentine government was offering interest rates of up to 40 percentage points above US Treasury bonds – the state was technically insolvent.

- **Big profits for foreign investors**

Foreign investors have made huge profits on Argentine bonds over the last few years. One fund, Toronto Trust Argentina, put all its money in Argentine bonds and made a return of 79% in 1995. Other foreign investment consisted mainly of foreign companies buying up local companies and privatized utilities, rather than creating new industries or modernising existing ones.

- **Recession**

The Argentine peso exchange rate may have kept the economy depressed at a time of growth. Argentina has been in recession for nearly four years: industrial production was down by 25% in 2001. Uncompetitive exports led to companies cutting back and going bankrupt, and to growing unemployment. The currency board meant that Argentina was unable to lower interest rates to encourage economic activity, and interest rates have soared in a climate of economic uncertainty. While waiting for the outcome of the August 2001 negotiations with the IMF, overnight interest rates rose to 35%. The Observer cited an interest rate of 90% on dollar-denominated borrowings.[122]

- **Austerity measures**

Former president Fernando de la Rua proposed £650 million in spending cuts, and introduced eight austerity plans during his two years in office (1999-2001). There has been widespread popular protest against austerity measures required as part of IMF assistance packages. In September 2000, the IMF agreed a loan package of $22 billion for 2001, which required Argentina to cut its budget deficit from $5.3 billion to $4.1 billion. The government agreed to cut salaries under an emergency employment programme by 20%, to cut civil servants' salaries by 12-15% and to cut pension payments by 13%. There have also been cuts to the nation's health insurance and education spending. A condition of the new terms of the loan agreed in August 2001 is that the central government would tighten controls on spending by provincial governments, which spelt harder conditions for the public. At the end of 2002, the government of de la Rua planned to cut public spending from £34 billion to £27 billion in order to meet loan repayments.

- **Privatisations and liberalisation**

Under military rule in the late 1970s and early 80s, foreign investors profited from a wave of privatisations. In the mid-nineties, Argentina sold off its banks to foreign banks, resulting in an estimated three-quarter of a billion dollars a day in hard currency leaving the country. Significant parts of the country's water system have been sold off. A French company that bought the water system raised charges in some areas by 400%. Privatised telephone, water and energy companies have pegged their tariffs to the dollar, and indexed them to the US inflation rate, even though prices have been falling in Argentina for the last five years. The privatisations were also designed to contribute towards debt repayment.

Part of the problem was the liberalisation of financial markets that is an aspect of IMF policy. This made it easier for wealthy Argentineans to invest abroad: in July 2001, Argentineans withdrew 6% of all bank deposits. In the last 10 years, $130 billion has left the country in capital flight.[123]

- **Bonds replace cash**

In August 2001, in an attempt to curtail spending, Buenos Aires province announced that it would pay its workers in bonds rather than cash. The bonds paid 7% interest, redeemable in a year, and were used to pay for services such as water and telephones, as well as the purchase of Macdonald's burgers. Economists who use burgers as an index of the purchasing power of currencies were therefore able to calculate that the true value of the bonds was 67-78 cents of a dollar. The system therefore further contributed to the impoverishment of workers.

- **Protests**

The economic crisis led to political instability and social unrest, with street protests leading to a succession of short-lived presidencies – four presidents in two weeks replaced former President Fernando de la Rua before Eduardo Duhalde took office in January 2002. Twenty-seven people died in these riots, and the government gave out 200,000 kg of food aid to citizens.

80,000 protestors marched along the streets of Buenos Aires in May 2001. In June a general strike was honoured by 7 million workers. A number of protestors have been killed over the year when the police have fired on protests against the IMF plans. Anibal Verón lost his job as a bus driver, and was shot by the police while engaged in blockading a road in protest in November 2000. Union leader Carlos Santillán was also shot in a protest against austerity plans in Salta Province.

Case study: living in a bankrupt state

Martin Villarruel, 25, studies dentistry at the university in Rosario, Santa Fe. He only needs to take exams in order to be able to graduate, but as the lecturers are on strike because they haven't been paid, he will have to wait another year. He has returned to live with his parents in Parana, but life isn't easy for them either. His mother is a teacher, and she hasn't received her salary for three months. In addition, she has breast cancer, and the public health system has collapsed. Public hospitals are underfunded and do not have enough medicine to treat their patient. Part of her salary had gone into a public health fund which pays the private sector to treat patients, but as the private service hadn't received any money for eight months they stopped offering treatment. He describes the tension in Parana, with policemen (who are fortunate enough to be paid) guarding the supermarkets from hungry, angry and penniless looters. Even those in work have no money, as they aren't being paid, and friends of his who work as dentists can't cover their expenses. Pensioners receive only $150 a month, and often queue for hours in the bank to find that their pension has not been paid. It has become a familiar sight in recent times to see people scavenging in rubbish bins.[124]

Reuters/Popperfoto

3. South Africa

The poorest 20% of the population share only 2.9% of the nation's income or consumption, while the richest 20% enjoy 64.8% of the nation's wealth.[125] Unemployment in 2001 was running at 23%.

- **Aftermath of Asian crisis**

The rand suffered repeated falls in the aftermath of the Asian crisis. In July1998, partly due to investor anxieties about emerging markets, it fell to an all-time low of 16 cents to a dollar (from 19.5 in June. This came at a time when the economy was already in a precarious state, with a rate of growth of only 2%, double-digit inflation and an unemployment rate of 30%.[126]

- **New lows lead to rising prices**

In August 2001, the rand again plummeted to new record lows, against a background of widespread shocks to emerging market economies, principally those of Argentina, Turkey and Brazil. A factor may have been fears that the instability associated with the land invasions in Zimbabwe, which have left its economy in ruins, would spread to South Africa.

This occurred at a time of grain shortages and rising food costs: prices rose by 6.4% in the year to July 2001.[127] The falling rand has continued to lead to rising prices, particularly for imported goods, although the impact has also been felt on the price of meal and wheat which are dietary staples, and produced domestically. The price of meal is reported to have risen by 30%, even though South Africa produced a surplus of meal last year.[128] Poor families typically live on as little as 500 rand a month.

- **Massive movements of capital**

In October 2001, the South African Reserve Bank tightened up on measures to prevent speculative trading, by requiring traders to show that they have a transaction to execute before trading the rand.[129] Part of the problem is the high volume of trade in the rand in relation to the size of the economy. $7-11 billion are traded daily, making it the most traded emerging market economy, due to the efficiency of South Africa's financial system, and due to the fact that there are few restrictions involved in trading. The rand is the 12th highest-traded currency in the world, while South Africa's economy is ranked about 30th.[130] An average of 3.8 billion rand left South Africa in the each month of the first three quarters of 2001, and the rand lost 37% of its value in 2001.[131] Many companies have listed on offshore stock exchanges, in search of foreign capital for expansion, leading to further outflows of capital from South Africa.

- **Privatisations and protests**

Industrial unrest swept through South Africa in August 2001 in protest against the government's extensive programme of privatisations. Public service workers fear that plans to sell of $21.5 billion in public utilities will lead to even higher levels of unemployment and escalating prices for essential services that will disproportionately hit the poor. The privatisations are seen by many as a betrayal of the ANC government's initial ambition to improve living conditions for the poor. The government's GEAR programme (Growth, Employment and Redistribution), introduced in 1996, involved evictions from free or low-cost housing. The South African Congress of Trade Unions, COSATU, says that about 200,000 jobs have already been lost due to the privatisations. The government's aim is to raise revenue; it expected to raise 18 billion rand in 2001.

- **Arms not social services**

In 1999, South Africa signed a deal to buy $3.7 billion worth of ships, planes and helicopters from British, German and other European arms manufacturers, and in addition incurred a debt of $2 billion, partly in interest on loans to finance the deal.[132] This is money that the state can ill-afford, representing a sum several times its health, housing and education budgets. The deal was made in dollars, euros and pounds, and with the collapse in the rand's value has nearly doubled in price – it is now estimated that, without interest on financing, the deal will cost as much as 60 billion rand, up from an original estimate of 30.3 billion rand.

- **Aids and its impact**

South Africa has the largest number of HIV/Aids cases in the world, with one in nine of its 45 million people infected.[133] It is forecast that GDP will be 17% lower by 2010 as a result of the effects of the epidemic.[134] Aids represents a huge social problem, reinforcing a vicious cycle of poverty. Aids drives families into poverty, and poverty exacerbates the spread of the disease. It is the poor who cannot afford anti-Aids treatment. Anti-poverty measures are needed to combat the disease, and economic factors that contribute to growing poverty and diminishing budgetary resources are only likely to have a negative impact on the fight against the disease.

Reuters/Popperfoto

4. Turkey

The financial crisis is estimated to have caused 500,000 job losses.

- **Capital flight forced government to abandon currency peg**

Turkey's financial crisis has been described as more political than economic in its origins. Allegations of corruption within the banking sector scared off foreign investors and caused a financial crisis in December 2000. The stock market fell by 40% and interest rates rose to 1,000%.[136]

Investors again became worried in February 2001 by a row between the President, Amet Necdet Sezer, and Prime Minister, Bulent Ecevit, over the government's tackling of corruption in the banking sector. $7 billion left the country on 19th February alone,[137] and the stock market lost 18% of its value on 21st February. Inter-bank interest rates rose to a massive 5000% on 21st February at the height of the crisis.

The government was forced to abandon the fixed exchange rate for the lira, part of an IMF-sponsored financial reform package, by the pressure of capital flight and also the need to repay domestic and foreign debts. The government floated the lira in February 2001, and the currency lost 28% of its value in a day. By July, it had lost nearly 50% of its value.

- **Government blames speculators**

In April 2001, the economy minister, Kemal Dervis, attacked fickle investors for causing the country's economic problems: "As soon as they think that their profits will drop, there is a flight of speculative capital".[138] Turkey, he maintained, was paying the social price of an unbridled financial system.

- **Subsequent jitters on financial markets**

In July 2001, the Turkish lira again dropped to an all-time low amid fears about Argentina's economy, and following the IMF's decision to delay a payment of $1.6 billion to Turkey, which had been agreed at the time of the financial crisis earlier in the year. It cited the government's refusal to implement changes to the board of Turk Telecom, and to close down loss-making state banks. It was estimated that the economy had contracted by 5.5% in 2001.[139]

Turkey is engaged on a programme of economic reform, which includes cuts to public spending and public borrowing, widespread privatisations, and a restructuring of the banking sector. It was designed to tackle Turkey's inflation problem: from 1994-9 it averaged 80%.

Turkey has the 22nd largest economy in the world, but has NATO's second largest army.[140]

- **Social impact**

Fuel prices rose by 20% in April 2001,[141] and prices on imported goods such as cars and electronics rose by as much as 50%.[142] The impact was not confined to imported goods: inflation was running at 30% in 2001.[143] Real incomes dropped by nearly 50%.[144] The government froze salaries for over 400,000 state workers for six months as part of the IMF-mandated austerity plan. The price of imported medicines shot up, and some companies refused to ship drugs to Turkey because of the uncertain exchange rate, which led to shortages.

There were large numbers of bankruptcies and enforced redundancies, and hundreds of thousands of job losses. Unemployment was over 20%.

- **Protests**

Unions, mass organisations, professional groups and political parties united to protest against the IMF-backed economic programme, saying it ignores the needs of the people who must suffer the effects of the crisis. Riot police clashed with tens of thousands of people protesting against the government's handling of the financial crisis in April 2001. On 11th April 2001 people were injured and 100 arrested. As a result, demonstrations were banned in some cities.

Conclusion - It's Time for Tobin

- **Currency speculation, global instability and poverty**

Currency speculation plays an increasingly central role in global instability as a result of its ability to move huge sums of money in a short space of time. The herd mentality of financial markets means that the self-fulfilling logic of speculation vastly exaggerates economic problems. Most currency traders have very short horizons. In addition, markets have developed increasingly elaborate forms of financial instruments, which, although designed to reduce risk, in practice tend to enhance the volatility of capital markets.

This report shows that the impact of this increased instability has been increased poverty and insecurity. Even with the re-emergence of strong growth among most of the Asian 'Tigers', the delayed effects of the 1997/8 crisis continue to hit the poor. The threat of further crises is ever present.

- **Capital flows and aid budgets**

A common feature of the countries affected is their reliance on private capital flows as a means of financing growth. This comes at a time of declining levels of official financial flows. Private capital flows now dominate total financial flows to developing countries, constituting 86% of all capital flows. Meanwhile, official financial flows declined from 29% in 1990 to 13% in 2000. The countries affected by crisis are among those, which have been the recipients of the highest levels of private flows.

These crises suggest the dangers of opening up to foreign short-term capital. Short-term flows may not have the same potential as long-term investments to contribute to development, and may in fact tend to impede it. International capital flows are volatile, fed by herd behaviour and inadequate market information.

Any benefits that might be associated with private capital flows are largely not shared by the majority of developing countries, particularly the Least Developed Countries, as 97% of capital market financing (which includes bonds, bank lending and equity investments) to developing countries was directed at middle-income countries in 1997. Financing to Brazil, China and Turkey accounted for almost the entire rise in capital market flows to developing countries as a whole.

- **The need for Tobin-type taxes**

A reliance on volatile forms of short-term investment leaves the fragile economies of developing countries vulnerable to sudden changes in financial markets. One common thread in all these crises is the central role of speculative trading on foreign exchange markets. The increased frequency of financial crises must raise questions as to the desirability of pursuing policies aimed at the progressive liberalisation and deregulation of financial markets, and urge the consideration of measures instead aimed at stabilising this volatility. A Currency Transactions - or Tobin - tax is a small universal tax on currency transactions. It could help to deter speculation by making currency trading more costly. The tax should be introduced as part of a package of measures aimed at stabilising the world economy and regulating financial markets.

There are arguments to suggest that such a tax could act in particular to deter short-term transactions, because it would make the rapid movement of large sums of money between countries more expensive. The disincentive to long-term capital flows would be much smaller. The volume of destabilising short-term capital flows would decrease, leading to greater exchange rate stability. It might enhance not only market efficiency but also global financial stability. It could reduce the volatility of global financial markets, allowing greater scope for the exercise of fiscal and monetary policy within nation states. It could also restore some of the autonomy governments and central banks can lose as a result of speculation.

The other advantage of a Tobin tax, and one particularly appropriate in view of the current diminishing scale of aid budgets, is its revenue-raising potential. The progressive globalisation and liberalisation of the world's economy, and the increasing frequency of economic crises, render the adoption of such a measure a matter of some urgency.

Net long-term resource flows to developing countries[145] *(billions of dollars)*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total	123.0	155.8	220.4	223.7	261.2	311.2	342.6	334.9	264.5	295.8
Official flows	60.9	56.5	53.6	48.0	55.1	31.9	42.8	54.6	45.3	38.6
Private flows	62.1	99.3	166.8	175.7	206.1	279.3	299.8	280.3	219.2	257.2
Capital markets	26.3	52.2	100.2	85.6	99.1	147.8	127.2	103.5	33.8	79.2
Debt flows	18.8	38.1	49.2	50.5	63.0	98.7	97.0	87.9	-0.6	31.3
Bank lending	5.0	16.2	3.4	8.7	30.5	33.7	45.2	50.0	-24.6	0.7
Bond financing	10.9	11.1	36.6	38.2	30.8	62.5	49.0	40.9	25.4	30.3
Other	2.8	10.8	9.2	3.6	1.7	2.4	2.7	-3.0	-1.6	0.3
Equity flows	7.6	14.1	51.0	35.2	36.1	49.2	30.2	15.6	34.5	47.9
Foreign direct investment	35.7	47.1	66.6	90.0	107.0	131.5	172.6	176.8	185.4	178.0

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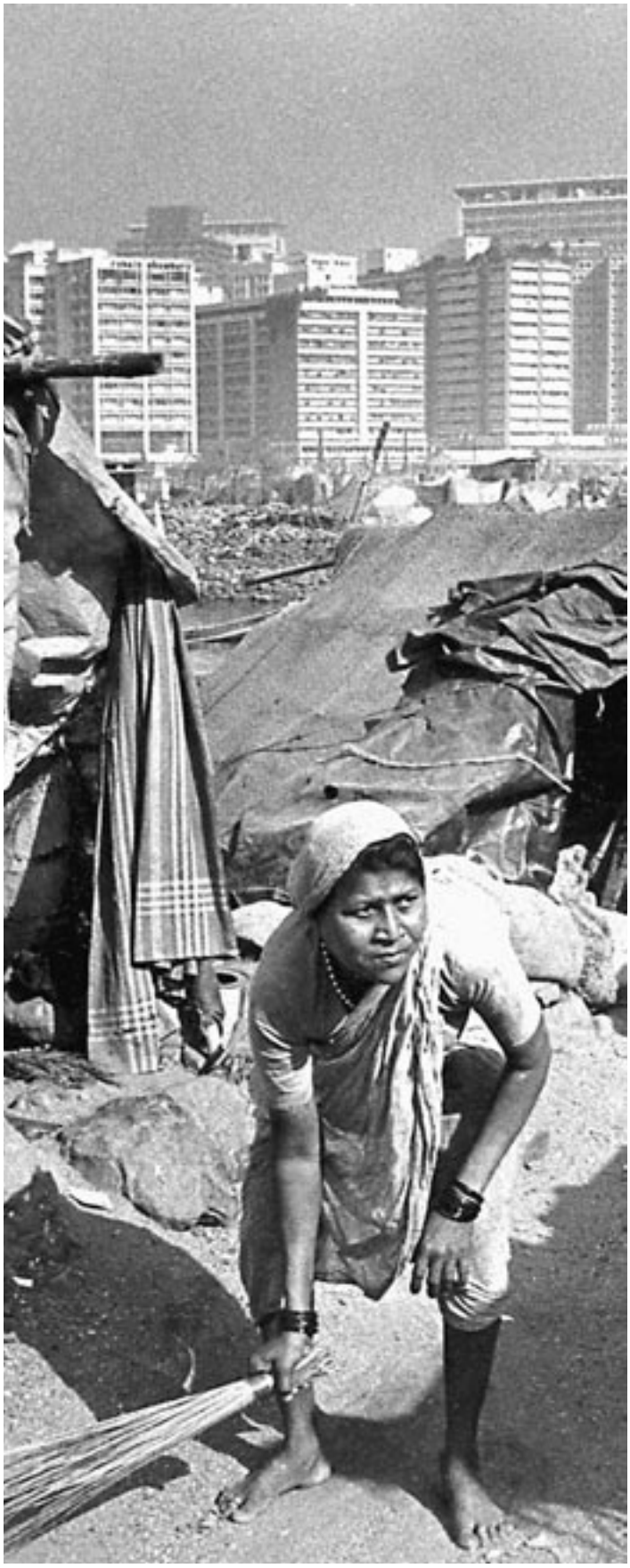

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War on Want is a UK-based campaigning charity. Founded in 1951 it has links to the labour movement and supports progressive, people-centred development projects around the world. War on Want campaigns in the UK against the causes of world poverty. It was a founder of the debt campaign and published the first reports to expose the aggressive marketing of Baby Milk Formula by multinational Nestle. War on Want has been leading the campaign for a Tobin tax in Britain since 1998. We are founding members of the international and European Tobin tax networks.

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