



Global Recession and the Informal Economy: Economic Crisis at the “Bottom of the Pyramid”

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GLOBAL RECESSION AND THE WORKING POOR

“Recession has hit the entire world. Wherever we go everybody is talking about it and each and every trade is affected by it. Recession is like a disease, how then can these workers remain unaffected by it?”

Manali Shah
SEWA Union

REMARKS

- **real economy effects:** first + second rounds
- **employment effects:** assumptions vs. reality
- **impact on the informal economy:** by sectors
- “window of opportunity”?
- **policy responses**

COMMON ASSUMPTIONS RE EMPLOYMENT CRISIS

- **Formal Economy:** increased unemployment
- **Informal Economy:** increased employment =
“savior during the crisis” (*counter-cyclical*)

NATURE OF EMPLOYMENT CRISIS

- **Wage Workers:** formal and informal
 - loss of jobs → increased unemployment
 - changes in contracts → increased insecurity + decreased earnings

- **Self-Employed:** informal
 - new entrants → increased competition
 - decreased demand and falling prices → decreased earnings
 - fluctuations in exchange rates, interest rates, and prices → volatility and insecurity of earnings

SCALE OF EMPLOYMENT CRISIS

ILO Global Trends Report 2009: predicts harsh labour market conditions as a result of the crisis - *highly probable worst case scenario* by end 2009 (since end 2007):

- **New unemployed:** an increase of 38 million unemployed worldwide
- **New working poor:** an increase of 200 million working poor, earning less than USD 2 per day, and unable to lift themselves out of poverty (most of whom work in the informal economy)

IMPACT ON INFORMAL ECONOMY

Key Sectors:

- Export Commodities
- Export Manufacturing
- Construction
- Retail Trade
- Waste Recycling

Note: these are sectors which a) are badly affected by the global recession and b) have high concentrations of informal workers

EXPORT COMMODITIES: SMALL AND MARGINAL FARMERS

- **Non-oil commodities:** prices expected to fall significantly during 2009
- **Eastern Africa:** evidence of ...
 - decreased exports of cotton (Tanzania)
 - decreased prices of coffee (Rwanda)
 - » nearly 25% - since September 2008

EXPORT MANUFACTURING: FACTORY WORKERS AND INDUSTRIAL OUTWORKERS

- **Export manufacturing** : major downturn in many sectors and countries – notably, in garment, toys, and electronic sectors in China
 - **factory workers**: loss of jobs + changed contracts (part-time and seasonal)
 - » **China**: massive lay-offs, especially in Pearl River Delta
 - » **Lesotho**: decline in aggregate demand for clothing and textiles from USA
 - **industrial outworkers**: fewer work orders + cancellation of existing work orders
- **Both groups**: downward pressures on wages and benefits
- **Down-stream effects**: decreased demand for accessories, textiles, and cotton

CONSTRUCTION: DAY LABORERS

- **Recent Trends**: mechanization → decrease in employment for non-skilled workers + increase in demand for skilled workers
- **Current Crisis**: global forecast of significant decline in output over next several years – even if government spending comes through as planned

RETAIL TRADE: STREET VENDORS

Mixed Picture:

- **Decreased Demand:** due to decrease in
 - domestic demand, including purchasing power of regular customers
 - construction and other work sites where street vendors sell food, drink, and other products to workers
 - tourism
- **Increased Demand:** due to increased demand for
 - cheap goods and services
 - convenient local sources of goods and services
- **Fluctuating Prices:** of goods bought and sold

WASTE RECYCLING: WASTE PICKERS

Major Global Downturn:

- **Causes:** significant drop in demand (notably from Asia, especially China) – for cardboard, glass, metals, newspaper, paper, plastics
- **Consequences:** significant drop in selling price → tons of waste accumulating on streets or in warehouses + container loads of waste stockpiling at harbors → less recycling + more waste going to landfills and incinerators → large numbers of waste pickers earning significantly less and/or facing possible loss of livelihood

PRICES OF WASTE MATERIALS: OCTOBER 08-JANUARY 09 Ahmedabad, India

<u>Type of Waste</u>	<u>Price (Indian rupees)</u>	
	<u>Oct. 08</u>	<u>Jan. 09</u>
1. Steel/Iron		
• Nuts, bolts, screws	25	15
• Sheet metal	10	5
2. Hard Plastic		
• Grade 1	15	6-8
• Grade 2	13	3-4
• Grade 3	10	3-4
3. Plastic Bags		
• Grade 1	18	6
• Grade 2	8	5-6
• Grade 3	5	3
4. Paper		
• Newspaper	8	4
• Brown paper	3	2
5. Cloth		
• White cloth	20	12
• Clean cloth	6	3

IMPACT OF THE GLOBAL RECESSION ON A WASTE PICKER AND HER FAMILY

“Ranjanben Ashokbhai Parmar is an old member of SEWA. When I visited her house recently, she started to cry: “*Who sent this recession! Why did they send it?*” I was actually speechless. Her situation is very bad, her husband is sick, she has 5 children, they stay in a rented house, she has to spend on the treatment of her husband and she is the main earner in the family. When she goes to collect scrap she takes her little daughter along, while her husband sits at home and makes bundles of wooden ice-cream spoons, from which he can earn not more than 10 rupees a day. How can they make ends meet?”

Manali Shah
SEWA Union

IMPACT OF GLOBAL RECESSION ON THE INFORMAL ECONOMY

“Smaller-and-Smaller Slivers of a Shrinking Pie”

- once-formal workers + unemployed + underemployed seek work in the informal economy
- over-crowding in *already highly competitive* informal markets
- downturns *within* the informal economy
- more and more workers competing for their “*sliver*” of a *shrinking* “informal economy pie”
- *no “cushion”* for the working poor
- *further impoverishment* of the working poor

OTHER POTENTIAL IMPACTS ON THE WORKING POOR

Other Potential Impacts:

- Reduced savings
- Reduced pensions
- Reduced social insurance and safety nets
- Reduced social services: education and health
- Decline in value of assets, notably homes

2009 AND BEYOND

Uncertain Future:

- Length of crisis
- Nature, degree, and scale of the crisis
- Impact of crisis on working poor in the informal economy

“Window of Opportunity”:

- Bailouts or rescue plans for the working poor at the “bottom of the (global economic) pyramid”
- Reform and regulation of economic system, not just financial system
- Renewed role for government, not just markets, in economy
- Increased voice and representation of the working poor

SEIZING THE “WINDOW OF OPPORTUNITY”

Policy Recommendations: for those at the “bottom of the pyramid”

- **Social funds targeted** at specific groups of working poor + **public works** (especially those that enhance skills)
- **Employment-focused sector-specific stimulus plans** made in consultation with specific groups of working poor, including
 - supply-side and institutional support to expand trades/industries *which are doing all right*
 - demand-side and institutional support to trades/industries *which are facing problems* (e.g. waste recycling)
 - skills training schemes (with grants/scholarships/stipends targeted at the working poor)
- **Reform of economic system** to put greater emphasis on employment/livelihoods + “mainstream” the informal economy + correct for policy biases against the informal economy