

Addressing the Social Impact of the Crisis

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Since the onset of the global economic crisis, much has been said and published about its economic and financial impact, but relatively little has been said about the socio-economic impact. While it is not difficult to observe the direct and often immediate adverse social impact of the crisis, little is known about their indirect and long-term impact on the country's human development and social capital potential which are increasingly acknowledged in developing economies as a critical factor for sustainable development.

As a result of the economic meltdown, it is expected that Malaysia's unemployment rate will rise from 3.7 per cent last year to 4.5 per cent in 2009. This amounts to nearly 500,000 unemployed in 2009, based on the latest third quarter labour figures. The rise in unemployment and lower incomes are the main channels through which the social impact of the crisis has been transmitted because it is through these channels that the average household's real income shrinks.

Against the above backdrop, it is expected then that the incidence of poverty will likely increase from 3.6 per cent of total households in 2007, with the incidence of hard-core poverty estimated to increase from 0.7 per cent in 2007, or about 43,100 hard-core poor households. In particular, poor households in urban areas could also rise, exceeding the 2007 total of 11,640 as negative economic growth, retrenchment and reduced working hours hit the more urban-based and formal sector of the economy.

However, all these do not adequately reflect the full-blown impact of the crisis. While, so far, the adverse impact on employment, income and standard of living in Malaysia pales in comparison with that experienced by other crisis-hit economies such as Singapore and Taiwan, it will, however, be ultimately

necessary and important to probe deeper into issues such as the extent of voluntary retirement at an earlier age, the willingness of the workforce to accept lower wages in order to retain jobs, the extent of the workforce who are currently working in jobs for which they are either over-qualified or in which they are able to earn only a marginal income.

All the above manifestations arising from the crisis are important, not only because they have an adverse direct social impact by cutting household incomes, but also because they entail a real loss to the economy in terms of under-utilisation of resources. The crisis-induced changes in employment, income, and prices not only directly affect households' current standards of living but they also have a major impact on household investment in human development, particularly in the area of health (including nutrition), education and fertility. These negative impacts on human investment are particularly unfortunate since they imply that the effects of the crisis will be felt for many years into the future, and more so when the magnitude of the current slump is far worse than expected. Other likely impacts of the crisis are found in areas such as crime and domestic violence, the environment, and the levels of community cooperation, participation and cohesiveness which may erode the existing stock of social capital.

Although the crisis has impacted on everyone in society, some particularly vulnerable groups can be expected to suffer substantially greater adverse effects. Among these are women, children, youth, the elderly, single parents, the disabled, some categories of workers (factory, service, white collar, and farm workers), migrant workers, urban squatters, etc. Within each of these groups, the poor are obviously particularly vulnerable to the crisis. As lamented by the Deputy Minister of Women's Family and Community Development Noriah Kasnon recently, despite contributing a higher productivity to the economy, employers tend to get rid of their female workers first.

There are lessons to be learnt from our experience in dealing with the social impacts of the crisis. One such lesson is the need for the public and private sectors to improve on the existing social safety-nets in terms of their coverage, effectiveness and financial capacities to deal with similar future economic crises.

A comprehensive review of these nets is, therefore, crucial during the current crisis. Besides retraining, retrenched workers who are on the verge of becoming poor would need other assistance as well.

Another lesson to be learnt from the crisis is the need for a more appropriate and efficient information system to monitor the social impacts of the crisis over time and to deliver high-quality data and analysis in a timely manner. Such a system will provide useful feedback to policy-makers and other concerned parties on the effectiveness of measures already implemented and offer policy guidelines concerning additional measures that need to be taken in the future.

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