

Chapter 4 Sources of child poverty changes during the globalisation era*

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Summary. There is scattered but important evidence that during the last twenty years child poverty has increased in absolute number and more than overall poverty in a considerable number of countries. In contrast, child poverty declined sharply in China and a few other countries. Only in Africa, population growth appears to explain part of the rise in child poverty. Several other factors played a more important role. To start with, the poverty alleviation elasticity of growth declined in the many countries that were affected by a rise in income inequality during the last twenty years. In addition, in most those countries that were affected by very large inequality rises, growth itself appears to have decelerated. A third factor was the growing volatility of growth and the ensuing sharp rises in temporary and permanent poverty that especially affected children. Other, less debated and often neglected, factors have aggravated the plight of children and increased the incidence of poverty and other forms of deprivation within this population group. Among them, a rise in family instability, a considerable increase in the number of orphans due to HIV-AIDS, the spread of humanitarian conflicts and a surge in excess mortality among parents recorded in many economies in transition. Finally, social policy towards children appears to have been especially weak and to have often been unable to compensate the impact on child poverty generated by the shocks described above.

JEL: D63, I32, J13, O15

*** This study presents the views of its authors and not the official UNICEF position in this field.**

1. Introduction

This chapter explores the complex relation between child poverty¹ on the one side and globalisation policies and other important changes (such as in family structure and family policy) on the other. The term 'globalisation' is used as a catchall term, a fact that can cause confusion². In this paper I refer to globalisation as the process by which policy-makers have promoted domestic deregulation and external liberalisation with the purpose of creating an integrated global market. Policy reform to achieve this objective began in the 1980s, with the adoption of programs emphasizing stringent macroeconomic stabilisation, privatization and domestic deregulation. This process grew in intensity in the 1990s with the removal of barriers to international trade, the opening up to FDI and the liberalisation of the capital account of the balance of payments - all measures that accelerated the pace of integration of the world economy. During the last few years, poverty eradication has been added to the objectives of the dominant policy approach. In this regard, the Development Assistance Committee (DAC) of the OECD has adopted the explicit goal of reducing the incidence of income-poverty in developing countries from 30 to 15 per cent between 1990 and 2015. Children, who represent a disproportionate share of the poor, ought to benefit substantially from such new commitment. It is still unclear, however, which new policy instruments should allow to reach this new target and whether the traditional policy approach is fully compatible with this new goal.

The impact of globalisation on child poverty is obviously a multifaceted one. Many of the changes that it brings about are welcome, and indeed globalisation - if properly 'governed' and 'harnessed' - might unleash a rapid reduction in child poverty. Where markets are complete, competitive and non-exclusionary, regulatory institutions strong, asset concentration moderate, access to health and education widespread and social safety nets in place, reliance on global market forces is highly desirable from an efficiency and even an ethical perspective. Under these conditions, globalisation reduces rent seeking, rewards effort and entrepreneurship, increases opportunities and employment and generates economies of scale in production. An expanding global market can also help incorporating into the world economy developing nations with good human and physical infrastructure but narrow domestic markets, thus facilitating a broad-based N-S transfer of investment, technology (including for health and education). Finally, trade expansion can improve consumer welfare by reducing the price of consumer goods.

For countries where most of the domestic conditions for opening up are met and which are able to participate in the international economy at broadly egalitarian conditions,

¹ Poverty is defined here in the income space. Other aspects of the changes in child wellbeing such as infant mortality, school enrolment and so on that are discussed in other parts of this compilation (see for instance chapters 2 and 3).

² The term is also used to refer to: the greater exchange of knowledge, ideas, goods, and services made possible by advances in information and communication technologies; the emergence of new global actors/institutions (such as the TNCs, pension and mutual funds, international NGOs/CSOs, and some multicountry entities) which have acquired huge power in relation to states; the spread of a global culture, consumption patterns, etc

globalisation has contributed to rapid, if not entirely equitable, growth and to an improvement in living standards, steady gains in indicators of child wellbeing and even the 'leapfrogging' of entire development stages. The experience of these countries - China above all - needs to be well distilled and the related positive lessons learned (see chapter 8 of this compilation).

However, the conditions for successful globalisation were met only in a limited number of countries with adequate human and physical infrastructure, regulatory capacity and a diversified economy. For many others, weak domestic structures (due to wrong policies or objective conditions) combine with the persistence of asymmetries in the global economy - protectionism in OECD countries, contagion due to financial crises, an unequal distribution of foreign direct investments - to create a situation in which premature and unconditional globalisation may generate in the immediate more costs than benefits - and thus derail the necessary political support for the opening up to the world economy.

Domestic weaknesses and global asymmetries (in competitiveness and access) have fuelled a divergence between the 'gainers' and 'losers' of globalisation. In addition, the policy measures adopted to liberalize the domestic economies have in many cases triggered a surge in within country inequality, which affect the political support for globalisation. An increase in inequality in fact reduces the poverty alleviation elasticity of growth and - where this increase has been large - it reduces growth itself, thus depressing further the prospects for poverty reduction and global integration.

Thus, the relation between child poverty and globalisation is mediated by the impact of globalisation on the pace and pattern of growth, a topic that will be examined in this paper. But - for any given growth rate and income distribution - other factors, including demographic factors (e.g. in the 'young age dependency ratio') family structure and stability, community cohesiveness and social policy for children also affect child poverty. Finally, the initial conditions - e.g. the distribution of assets, human capital and opportunities prior to globalisation - also influence the outcomes in terms of growth and child poverty. An important aspect of globalisation, in this regard, is whether it lessens the impact of the old causes of poverty and inequality (land concentration, unequal access to education, gender and urban bias and so on).

2. Policy components of globalisation and their expected impact

The proponents of globalisation claim that this policy approach generates a number of favorable efficiency effects. Stringent stabilization is expected to reduce the rate of inflation and the budget and trade deficits to acceptable standards, thus eliminating the risk of currency crisis and the high costs of inflation. Stabilisation in other words creates the conditions for non-inflationary growth. In turn, tax reform eliminates trade taxes and reduces direct tax rates that - it is argued - diminish the net returns to labour and capital investment and so reduce the incentives to work and invest. It also simplifies tax systems so as to reduce the transaction costs by relying on uniform, neutral and easy to administer indirect taxes such as VAT. Third, the public expenditure reform cuts expenditure/GDP ratios while opening up to private providers. Such a 'small state' policy allows to control private interest in the conduit of public affairs and helps clearing considerable pent-up demand for public services in strong

demand. Redistribution via taxation is broadly abandoned and only the fine targeting of a sharply reduced public expenditure is retained as an instrument to help the poor.

The domestic markets for production factors and products have also been liberalized. Liberalisation of the markets for goods and services is meant to stimulate domestic competition and reduce rent-seeking by protected domestic manufacturers. In the labor market, wage liberalisation erodes the privileges of the privileged labor elite, and it remunerates labour according to its human capital, talent and effort. While wages may fall, the increase in labour demand and labour supply brought about by liberalization ought to increase the total wage bill. The freeing of financial markets, in turn, is expected to increase the saving rate and credit supply, deepen the financial market and allocate savings more efficiently.

Asset privatisation leads to the internalisation of both costs and benefits of each person's production decisions and efforts, imposes a hard budget constraint on former state enterprises, avoids the political appointment of incompetent managers and the exploitation of public enterprises by elite that 'occupy the state'. Private property - it is argued - avoids the problem of the social cost and is therefore the most efficient property rights regime.

Import liberalisation forces competition on domestic producers and reduces the cost of key inputs, while export promotion allows to specialize in the sectors where comparative advantages are the greatest and to obtain economies of scale in production. Global trade thus offers major opportunities for export and growth to developing countries. In turn, the liberalisation of the capital account is meant to attract foreign capital (foreign direct investments, bank loans and short term portfolio flows) so as to increase the national saving rate and domestic investment and to allow domestic savers to optimize the allocation of their financial assets.

As a whole, such an approach is expected to promote growth - especially in the developing countries where savings scarcity prevents the exploitation of high return projects with strong export potential and to promote in this way the convergence of the living standards of poorer countries with those of the advanced ones. The distributive impact of these policies within the countries that adopt them is on the whole neutral as the long term income distribution is broadly stable.

These predictions, however, have not yet materialized, except in a handful of countries. Indeed, in spite of a series of favorable developments reviewed in the course of this paper, the last two decades have been characterized by an upsurge in domestic income inequality in many countries, greater growth instability, slower growth than during the prior twenty years and - outside China - an excruciatingly slow decline in poverty and in child poverty in particular. These unsatisfactory results might be the result of the limited time elapsed since the liberalisation of the domestic markets and the globalisation of international transactions, or to the partial and reluctant application of the liberal policy described above, or to external shocks (e.g. AIDS in Africa). But they might be due also to the limited efficacy of these measures, most particularly to the lack of those preconditions that are necessary for the success of these policies.

To an extent, inequality, instability and slow growth have been the result not of the inherent failure of an ideal model of globalisation, but by the premature, asymmetric and unbalanced application of such policy (see chapter 8 of this compilation). An effective liberalization and globalisation requires a phased, selective and symmetric approach that emphasizes explicitly a clear policy sequencing and the achievement of distributive and poverty targets.

3. Globalisation, income inequality, growth and family incomes

Hereafter are summarized the main changes intervened over the last 20 years in within-country inequality and their likely effects on family incomes (for a more detailed discussion Cornia 2002). The main conclusion of this section is that - while within-country inequality fell or remained constant or decreased in several instances between the end of World War II and the early 1980s, it since increased in over 2/3 of the 73 or so countries with reliable information.

3.1 Changes in income inequality over the last 20 years

As mentioned, inequality diminished between the 1950s and the 1970s though there were several exceptions to this rule. In many economies of sub-Saharan Africa the development of national states often caused an increase in rural-urban and overall inequality, and in Latin America the decline in inequality began only in the 1970s and did not concern the Southern Cone. During the last 20 years, in contrast, the prior decline in inequality was reversed in several countries (see also Birdsall 2000). Out of the 29 countries in Table 1 below showing a U shaped trend in income inequality, the reversal took place in the mid-1970s in Sri Lanka and Thailand, in the late 1970s and early 1980s in the 'early liberalizers' (UK, US, New Zealand and Australia), the early-to-mid-1980s in several Latin American countries, 1984 in China, 1985-90 in several Central or Northern European countries, 1989-92 in the Eastern European and among the former members of the USSR and 1992-93 in Italy and Finland.

The increase in inequality affected all regions except the MENA region for which lack of long-term data prevents to reach firm conclusions. The increase was universal in the economies in transition, almost universal in Latin America and the OECD and increasingly frequent, if less dramatic in South, South East and even East Asia where the effects of the 1997 financial crisis have not yet fully been assessed. In sub-Saharan Africa, domestic liberalisation may have improved the agricultural terms of trade but failed to induce - with few exceptions - an expansion of inequality-reducing labour intensive exports.

The results in Table 1 are based on the 1998 version of WIID that extends only up to 1994-5. Because of this, they do not reflect the inequality changes intervened during the last 5-6 years and cannot therefore capture the impact of the recent financial crises. If one then includes among the countries with rising inequality also India, Indonesia, South Korea, Tanzania and the Philippines - all nations that recently experienced growing income disparity - of the 73 countries in the sample, 53 appear to have experienced a surge in income concentration over the last 20 years.

Table 1. Summary of changes in income inequality in 73 countries from the 1960s to the 1990s

	Developed	Developing	Transitional	Total
Raising Inequality	12 countries: Australia, Canada, Denmark, Finland, Italy, Japan, Netherlands, New Zealand, Spain, Sweden, UK, USA,	15 countries: Argentina, Chile, China, Colombia, Costa Rica, Guatemala, Hong Kong, Mexico, Pakistan, Panama, South Africa, Sri Lanka, Taiwan, Thailand, Venezuela,	21 countries: Armenia, Azerbaijan, Bulgaria, Croatia, Czech Rep, Estonia, Georgia, Hungary, Kazakhstan, Kirgistan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Ukraine, Yugoslavia,	48 countries
Constant Inequality	3 countries: Austria, Belgium, Germany	11 countries: Bangladesh, <u>Brazil</u> , Cote d'Ivoire, Dominican Rep., El Salvador, <u>India</u> , <u>Indonesia</u> , Puerto Rico, Senegal, Singapore, <u>SLV</u> , <u>Tanzania</u>	2 countries: Belarus, Slovenia	16 countries
Declining Inequality	2 countries: France, Germany	7 countries: Bahamas, Honduras, Jamaica, <u>South Korea</u> , Malaysia, <u>Philippines</u> , Tunisia	0 countries	9 countries
All	17 countries	33 countries	23 countries	73 countries

Source: Addison and Cornia (2001). All data come from the November 1998 version of World Income Inequality Database (WIID) produced by WIDER and accessible online on its website.

Notes: the length of the time series and the number of observations vary from country to country. These results were obtained on the basis of 770 "reliable observations" concerning the entire national economy of 73 countries (2) the data refer to "per capita household disposable income" in 52 cases (gross in 28 cases, net in 17, unknown in 8), "per capita consumption expenditure" in 9; "gross earnings" in 14 (mostly economies in transition) to 'gross earnings'. In the countries underlined, there is very recent information (not yet included in the WIID database) that inequality rose over the last few years (see Cornia with Kiiski 2001)

The observed increase in the Gini coefficients was often substantial. Of the 53 countries with growing inequality, the rise was of between 5 and 10 Gini points in 37 nations (in 9 of them it occurred from initial levels of 0.40-0.45), by between 10 and 20 points in 10 countries and by more than 20 points in a couple of countries of the former Soviet Union. In countries with a developed wage economy, the inequality upswing seems to have been driven by a fall in the labour share and a surge in earnings dispersion not explained by the traditional increases in returns to education or in educational inequality. A rise in income concentration appears to have been due also to growing regional disparity (as in China and Thailand). Adverse changes in tax and transfer systems and the boost in land and financial rents (as in Japan and Taiwan) have also been important factors. These changes and their underlying causes are discussed in greater detail below.

3.2 Causes of the surge in income inequality

High income inequality has traditionally been attributed to factors such as the dominance of latifundia, a strong "urban bias" in public policy, the high concentration

of mineral rent in countries exporting natural resources, and a highly unequal distribution of human capital resulting from a lopsided access to education. Cornia and Kiiski (2001) examine the contribution of these factors to the rise in inequality over the last two decades and conclude that while they still account for an important part of total income dispersion there is no systematic evidence that they explain the recent rise in income polarization. The share of agriculture and land rents in GDP declined everywhere while some 30 redistributive land reforms were carried out in developing countries. Likewise, a recent review (Eastwood and Lipton 2001) shows that the urban bias did not worsen, or even narrowed, in the 1980s and 1990s in many developing countries though it clearly rose in China and Thailand. Educational inequality, in contrast, appears to have risen further in the 1980s and 1990s in about half of the developing region. In addition, in Africa and the former Soviet Union, enrolments declined in primary education but rose in privately financed secondary and higher education. Cornia and Kiiski (2001) arrive to similar conclusions concerning the impact of 'new technologies' on inequality. In this case, it appears that whether the disequalizing effect of such technologies is translated into greater income inequality depends on the degree to which public policy subsidizes secondary and higher education. Other distributional effects of technological change may be less controllable but do not appear to generate a systemic effect on education. They conclude that the policy changes of the last twenty years, to which we turn now, are more relevant to explain the rise in income inequality.

(i) Stabilisation. While stabilisation is in most cases necessary and unavoidable, its impact when brought about through conventional instruments - especially in developing countries - is not distributionally favorable. While yielding rapid results in terms of macroeconomic balance, the conventional approach generates avoidable recessions of varying duration (IMF 1998). In addition, the impact of orthodox stabilisation is not distributionally neutral. Unlike in the advanced countries, inequality in developing countries rises during recessions and adjustment and falls during recoveries (Iglesias 1998). In industrialized countries, economic slumps have a greater impact on profits than wages because of the stickiness of the latter, because social safety nets cushion losses of wage income, and because firms hoard labor during recessions to reduce the screening and training costs over the medium term. In contrast, in low and middle-income countries, wages are downward flexible, social safety nets little developed and labor stockpiling is rare. As a result, the recessions deliberately induced by demand management policies trigger falls in wages that are faster than those in GDP/capita and profits, the wage share declines and the inequality of the size distribution of income worsens.

Inequality is generally accentuated by the policies introduced to control inflation. High inflation worsens inequality, as the poor are least able to index their incomes and maintain the real value of their assets and unskilled labor is especially vulnerable to lay-offs in recessions caused by ill-designed stabilisation efforts. Thus, under conditions of high inflation, stabilisation policies are likely to generate favorable distributive effects. Yet, orthodox stabilization programs target single digit inflation rates, even though the literature shows that below a threshold of 40 percent, a year inflation is not costly (Stiglitz 1998).

(ii) Structural reforms. Evaluation of the impact of overall structural reform packages is more complex and might lead to different conclusions depending on the

specific instrument and region considered. Yet, here too, there seem to be some regularities. When assessing the impact of the overall liberalisation-globalisation package on wage differentials in 18 Latin American countries over 1980-98, Behrman, Birdsall and Szekely (2000) found that the overall structural package had a significant disequalizing effect. Broadly similar evidence is provided by a review of the effects of liberalisation and globalisation during 21 reform episodes in 18 developing countries during the last two decades (Taylor 2001). The study finds that inequality rose in 13 cases, remained constant in 6 and improved only in two. Similar results are found by Cornia and Kiiski (2001) who show that in countries with an initial medium level of inequality strong liberalisation increases inequality by between 4.5 and 5.5 percentage Gini points, with stronger effects to be expected in the countries of the former Soviet Union and somewhat weaker ones in those of Latin America where initial inequality was already very high. All these studies, however, indicate that each policy instrument (the main ones are reviewed hereafter) have a distinct effect on inequality:

- liberalisation of the labour market. Even in periods of output expansion, wage inequality may worsen due to the reforms promoting wage flexibility, reduced regulation, an erosion of minimum wages, unionisation and collective bargaining. The impact of the liberalisation of the labor market is often compounded by the removal of barriers to capital movements which increase the bargaining power of capital in its negotiations with both labor and the government (Morley 2000). Empirical verification of such hypotheses is provided, among others by Behrman, Birdsall and Szekely (2000) for 18 Latin American countries.

The liberalisation of the labour market may generate a rise in both employment and wage dispersion, depending on the relative significance of the 'wage inequality effect' and the 'employment-creation effect', as well as on the relative roles of formal and informal sector labor. In the US, where employment rose rapidly, the fall in unionisation accounted for about 20 percent of the increase in inequality observed during the 1980s (Gottshalck and Smeeding 1997). In Eastern Europe and Latin America the decline of minimum wages relative to the average is associated with a rise in overall wage and income inequality. These effects may be of some importance even in developing countries with small organised sectors. The impact of deregulation is less clear in countries with segmented labor markets and social security systems covering only the formal sector and with already high wage inequality (Argentina, Zimbabwe pre 1990). In these countries, the overall employment effect of the downsizing of the capital-intensive formal sector might be distributionally beneficial;

- trade liberalisation Several studies find that trade distortions have a negative effect on distribution and that the phased removal of trade protection reduces inequality, in line with the implications of orthodox trade theory as applied to labour abundant countries. A similar view is offered by Wood (1994) who argues that trade liberalisation raised inequality in the rich countries importing labor-intensive goods while reducing it in the developing countries exporting them.

However the empirical record in less developed countries offers a less sanguine view than these approaches. While conventional trade theory predicts that inequality will fall in developing countries which liberalise, new theory and some new evidence suggests that income inequality now rises post-liberalisation as observed in a broad

range of LDCs over the last 20 years, including in the Asian exporters of labour intensive manufactured goods (Cornia with Kiiski 2001). An array of studies indicates that wage differentials rose in line with liberalisation in Latin America, the Philippines and a few OECD countries (Alarcon and McKinley 1995, Atkinson 1995). Alternative theoretical approaches stress structural inflexibilities, the import of world class technology or the shift to high tech exports requiring highly educated labor. Behrman, Birdsall and Szekely (2000) explore a variety of factors that can erode the theoretical advantages of trade liberalisation in Latin America. They focus, among others, on the limited advantages enjoyed by such region in the export of labor intensive goods which are supplied also by low-wage economies such as China. Empirically, their study finds no significant relation between trade liberalisation and wage differentials;

- domestic financial deregulation and the liberalisation of the capital account. Domestic financial sector reform has been one of the first structural policy changes introduced in a large number of developing countries. These changes in regulatory policies were conducive to private credit expansion but, with inadequate bank regulation and supervision in most countries, exacerbated the risk of banking crises. Financial deregulation was accompanied by a policy of high interest rates which raised the cost of servicing the public debt, with strong disequalizing effects.

Domestic financial liberalisation was followed by the liberalisation of the capital account. In a growing number of countries such measure has generated a sharp impact. This is in part due to the 'disciplining' structural effect that liberalization has on the policy decisions of governments and the demands of organised labour, in part to the real appreciation of the exchange rate (associated with higher interest rates) which shifted resources to the non-tradeable sector and increased subcontracting and wage cuts in the tradeable sector, and in part to its tendency to increase the propensity to destabilizing financial crises with real effects. Recent evidence (Galbraith and Lu, 1999) points to the relation between liberalisation of the capital account, the frequency of financial crises and pursuant changes in earnings inequality and poverty, particularly in countries with weak labour institutions. In L. America and Asia, for instance, financial crises raised inequality in 73 and 62 percent of the time. In the empirical study on Latin America mentioned above, Behrman, Birdsall and Szekely (2000) find that the strongest disequalizing component of the overall reform package was precisely the capital account liberalisation.

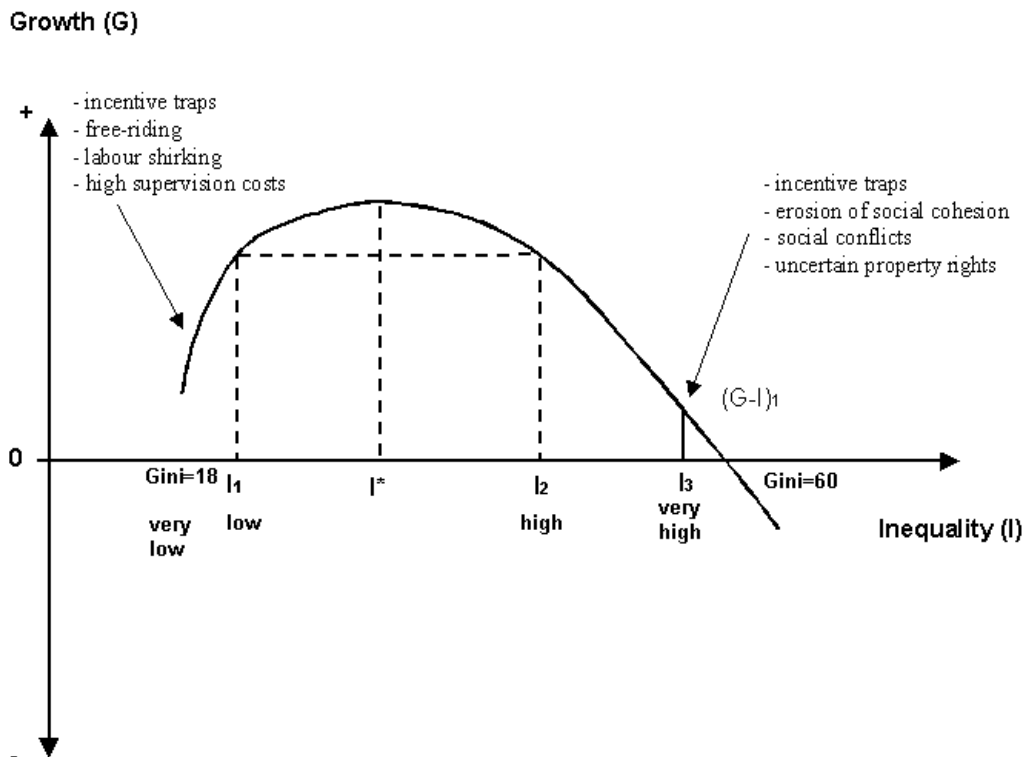
3.3 Impact of growing inequality on growth performance

What was the impact of the inequality changes discussed above on growth, family incomes and child poverty? The impact varied depending on the initial level of inequality and the 'sources' of its recent increase. At very low levels (as in some socialist economies in the 1980s), growth is affected negatively, as too compressed a wage distribution may not adequately reward different capabilities and efforts, erode incentives and increase shirking.

Similarly, when the gap between the rich and the poor widens excessively, the work incentives of the poor wane. For instance, rural economies characterized by high land concentration and landlessness face high shirking and supervision costs and are

therefore less efficient and grow less rapidly than more equitable agrarian systems. High levels of inequality can also create political instability and social tensions. For instance, the literature provides evidence of a strong relation between inequality and unemployment on one side and the crime rate on the other. Social tensions, in turn, erode the security of property rights, augment the threat of expropriation, drive away domestic and foreign investment, increase the cost of business security and contract enforcement and – as a result of all this slow down growth.

Figure 1: income inequality and GDP growth: inverse U shaped relationship



In this model, the relationship between inequality and growth is concave and asymmetric, taking the form described in Figure 1. In this approach, "too low" and

-especially - "too high" inequality reduce growth, which remains broadly invariant within a given "growth-invariant inequality range". Growth suffers if inequality falls below I_1 and a moderate surge in income dispersion from lower levels can improve incentives, accelerate growth and reduce poverty. Conversely, as inequality rises beyond I_2 growth turns sharply negative^{3, 4}. At high levels of inequality, the rich have an incentive to reduce improve financial markets, increase public spending on education, raise minimum wages and adopt other measures which lower transaction and monitoring costs and increase the security of property rights. These measures may indeed be less costly and more pro-growth than a status quo characterized by high supervision, transaction, security and enforcement costs and uncertain property rights.

The model was tested empirically on data for 70 countries by regressing the changes in Gini coefficients on the growth rates of GDP (standardized by the average regional growth) over the period 1980-1998. The test has yielded preliminary but encouraging results, identifying a concave relation between inequality and growth similar to that described in Figure 1. Tests on regional data confirmed the concavity of the relation and the robustness of the estimates except for Latin America (Addison and Cornia 2001). Further work is however necessary to better specify and test this relation.

This means that, economic growth and family incomes – and, by implication, child poverty - have likely been affected negatively in those of the 53 countries identified in section 3.1 that experienced large increases (10 Gini points or more) from low-medium levels of inequality or that recorded smaller increases (4-5 Gini points) from already high inequality levels.

4. Globalisation and growth instability

Another negative feature of the growth pattern of the last twenty years is a surge in growth volatility (see chapters 5 and 9 of this compilation). Variability of output has been especially pronounced in the developing and transitional countries – particularly those of sub-Saharan Africa, the Middle East and North Africa and of the former Soviet bloc - that recorded standard deviations around the average GDP growth of around 5 percent as opposed to a variation of 2.8 percent recorded in the typical industrial country (Pritchett 1997). While many factors such as humanitarian conflicts and natural disasters have contributed to growing volatility, the biggest factor involved was an epidemic of banking, financial and currency crises which followed the domestic financial deregulation of the mid-late 1980s and the liberalisation of capital account of the 1990s and which appear to have become more frequent and severe than in the past (Table 2).

³ The precise shape of the relationship illustrated in Figure 1 varies across countries depending upon their resource endowment, history, the distribution of physical and human capital and other factors.

⁴ The relation discussed above was estimated using GDP growth data (divided by the regional GDP growth average) and changes in Gini coefficient for 73 countries over the last 20 years. Standardisation by the regional average was necessary to control for regional shocks, such as the debt crisis in Latin America or the transitional recession in the former Soviet Bloc, which systematically lowered the growth rates in these regions as compared to others. The test identified a statistically significant quadratic relation (superior to the linear one) which explains 57 per cent of the total variance in growth performance.

In the absence of adequate information, prudential regulation, regulatory capacity and appropriate institutional and macroeconomic arrangements, overnight deregulation can cause severe banking and financial crises and abnormal fluctuations in the real exchange rate. Left to themselves, deregulated financial systems cannot perform well owing to problems of incomplete information, markets and contracts, and of herd behavior that are particularly severe in countries with weak regulatory institutions.

Table 2. Refinancing cost of recent banking crises (percentage of GDP)

Argentina (1980-82)	55.3	Sweden (1991-93)	6.4
Chile (1981-83)	41.2	Spain (1977-85)	16.8
Mexico (1995)	13.5	Finland (1993-96)	8.0
USA	3.2	Cote d'Ivoire (1988-91)	25.0
Israel (1977-83)	30.0	Bulgaria (1990s)	14.0

Source: Caprio and Klingebiel 1997

Such crises affect growth not only in the immediate but also over the medium term. Stiglitz (1998) suggests that over 1975-94 countries that suffered from banking crises saw their GDP growth rate decline on average by 1.3 percent over the subsequent five years in relation to the control group. The impact on poverty was also huge (Table 3). While asset holders and financial sector employees were affected in the immediate, the recessions triggered by these crises raised the poverty rate both over the short term and the medium term. In addition, studies of the impact of the Mexican, Thai and Russian crises show that high volatility and recessions generate a negative long-term impact on families and children who may be pulled out of school, enter hazardous jobs or prostitution rings to compensate for the loss of family income. The 1998-9 Russian crisis and the recession it generated caused a 20 % increase in mortality rates among male adults over 1999 and 2000 and by January 2001 death rates were still rising.

Table 3. Incidence of poverty before, during and after financial crises

	before	during	after
Argentina (87-90)	25.2	47.3	33.7
Argentina (93-7)	16.8	24.8	26.0
Jordan (86-92)	3.0	-	14.9
Mexico (94-6)	36.0	-	43.0
Russia (96-8)	21.9	32.0	-
Thailand (96-8)	11.4	12.9	-

Source: World Bank (2000)

5. Globalisation and slow growth

5.1 Aggregate growth performance

The last 15 years have been characterized by a series of political, demographic and technological changes that *ceteris paribus* - should have improved in economic performance. To start with, growth should have been stimulated by the 'peace dividend' deriving from the end of the Cold War and the reallocation to productive uses of military expenditures equivalent to some 2-3% of the GDP of several important countries, as well as by the 'market dividend' due to the introduction of market reforms in the former socialist economies. An improvement in performance was also expected from the 'political dividend' entailed from the spread of democracy

in the developing world. In addition, the 'e-technology dividend' ought to have raised - according to some - the growth rate of the economies adopting such new technology on a sufficiently broad scale by half a point a year. The last supposed growth-enhancing factor is the 'demographic dividend' -with the exception of Africa - most developing countries experienced a growth of the labor force faster than that of population (Table 4).

Table 4. Annual growth rate of the population and labour force in some developing countries

	Population growth		Labor force growth		(b1)-(a1)	(b2)-(a2)
	1980-90 a1	1990-98 a2	1980-90 b1	1990-98 b2		
Congo	3,3	3,2	2,8	3,2	-0,4	0,0
Ethiopia	3,1	2,3	3,1	1,7	0,0	-0,6
Nigeria	3,1	2,9	2,8	2,9	-0,3	0,0
South. Africa	2,5	2,1	2,7	2,1	0,3	0,0
China	1,5	1,1	2,2	1,3	0,7	0,2
Indonesia	1,9	1,7	3,1	2,8	1,2	1,1
S.Korea	1,2	1,0	2,4	2,1	1,2	1,1
Philipp.	2,6	2,3	2,9	2,9	0,3	0,6
Thailand	1,8	1,2	2,7	1,9	0,9	0,7
Vietnam	2,1	1,8	2,7	1,8	0,6	0,0
Bangladesh	2,4	1,6	2,2	3,0	-0,2	1,3
India	2,1	1,8	1,7	2,4	-0,4	0,6
Pakistan	2,7	2,5	3,0	2,9	0,3	0,4
Egypt	2,5	2,0	2,5	2,7	0,0	0,7
Argentina	1,5	1,3	1,5	2,0	0,0	0,7
Brazil	2,0	1,4	3,2	2,0	1,2	0,6
Mexico	2,1	1,8	3,3	2,8	1,2	1,0

Source: calculation by the author based on WDI 2000 Cd-rom 2000

Despite these favorable trends, the growth of world GNP/capita slowed down from 2.6 over 1960-79 to 1.0 over 1980-98 (Table 5). Except, for the steady expansion of the US economy over the 1990s and a 20 year Chinese Renaissance, growth was slow and punctuated by crises⁵.

Table 5. GNP per capita annual growth rate: 1960-98 and sub-periods

	1960-98	1960-79	1980-98	1960-69	1970-79	1980-89	1990-98
World	1,8	2,6	1,0	3,4	1,8	1,2	0,8
- High income	2,7	3,4	1,9	4,3	2,5	2,2	1,4
- East Asia & Pac. Exc. China	4,4	4,5	4,2	4,2	4,9	5,1	3,2
- China	5,4	2,8	8,4	1,3	4,4	7,7	9,2
- Eastern Europe & Central Asia	2,5*	4,2*	-0,8	5,0*	2,3*	2,1*	-3,3
- Latin America & Caribbean	1,7	3,0	0,2	2,7	3,3	-1,1	1,9
- Middle East & North Africa	..	..	0,1	..	..	-0,4	0,7
- South Asia except India	2,1	1,5	2,8	2,3	0,6	3,0	2,5
- India	..	..	3,6	..	0,8	3,4	3,8
- Sub-Saharan Africa	0,4	1,5	-0,8	2,6	0,6	-1,1	-0,5

Source: author's calculation on GNP per capita (constant 1995 US\$) on WDI 2000 cd-rom.

Note: * the data in the various columns refer to the periods 1950-98, 1950-82, 1982-98,

⁵ The East Asian crisis is estimated to have reduced the growth of the world economy by one percent over 1998-99.

5.2 Regional trends

The slowdown of the world economy is in part due by the growth deceleration intervened in the high income countries, a trend that for the believers of convergence is physiological. The growth slowdown in the market economies was accompanied by increases in inequality, unemployment (in Europe and Japan), the number of low paying jobs (in the US)⁶ and widespread wage decline in Japan. With industrial restructuring and the spread of the low productivity service sector, the years post-1975 saw a rise in part-time and low-paying jobs. Although these jobs offer additional employment and earning opportunities - particularly for women and the young - they contribute to rising poverty in one-earner households.

The 1980s witnessed a sharp deceleration of growth in the socialist economies of Europe and their literal collapse - with the only significant exception of Poland - in the 1990s following the introduction of market reforms. Most of these economies experienced unprecedented recessions (Russia and Ukraine, for instance, contracted by 40 and 60 percent between 1992 and 1999) while their net investment rate dropped to zero. In other cases, a strong 'transitional recession' over 1989-1993 was followed by a weak recovery so that, in the best cases, the GNP/capita of 1998 was the same than that of 1989⁷.

A sharp growth deceleration is evident also in the middle and upper middle income countries (Latin America, MENA) and in the low income countries outside China and India: In all these regions, the deceleration in growth was evident not only during the 'adjustment and debt crisis' of the 1980s but also in the 1990s, the years of widespread of liberalisation and globalisation. Most telling of all is the limited recovery, persistent growth instability and limited ability to increase export of manufactured goods despite two decades of - policy reform - that characterized the Latin American countries with the possible exception of Chile and Costa Rica. One of the factors of this unsatisfactory performance is likely the persistence of very high inequality in the distribution of assets, income and educational opportunities, a problem that has never been addressed by the promoters of liberalization and globalisation.

Finally, persistent stagnation-decline in growth, particularly in the 1990s, was recorded in the low income economies, mostly of Africa⁸. In view of Africa persistent stagnation-decline of agriculture, continuing institutional weakness and political instability the orthodox reforms of the last two decades appear futile and grossly misplaced.

The 'big winner' of the growth contest of the last two decades has clearly been China which over 1980-2000 literally tripled its growth rate in relation to the already non-negligible rate recorded over the 1960-80 period. The Chinese economy benefited from the market reforms introduced respectively since 1978, and which relied on a selective and gradual liberalization (see chapter 7). The reforms sharply accelerated food production, quadrupled GDP/c and tripled the export-import/GDP

⁶In the European Union, long-term unemployed rose to 40 per cent of the total (OECD, 1995).

⁷In terms of collective welfare, however, the composition of GDP improved (because of its greater adherence to consumer preferences) while its distribution worsened - except than in Central Europe.

⁸According to UNDP, in 1999 there were 80 economies with a lower GNP/capita than in 1980.

ratio, made China the second world most attractive destination for foreign direct investments and sharply reduced poverty, including among children.

India as well was also able to speed up her 'Hindu growth rate'⁹ of 1 percent a year recorded over 1960-1980 to the 3.6 percent of the last 20 years. In the 1980s growth accelerated and poverty declined because of the impact of the 'green revolution' - as food and non-food crop production grew at an impressive rate of 4 percent a year, up from the 1.8 in the prior decade. The growth of the 1990s, in contrast, was more concentrated sectorally, regionally and by income group.

While the size of these two economies offers them huge advantages in relation to small shock-prone economies - the home-grown pattern of reform they followed was key to their success. Such approach helped them to insulate each other from the vagaries of an unstable world economy. As of today, for instance, both India and China have not liberalized short term capital movements, while China still manages its exchange rate and both countries practice a policy of selective open door for FDI. While both of them are not immune from problems, their policy experience ought to be fully distilled and the necessary policy lessons learned.

6. Globalisation and poverty

Widespread rises in inequality and slow/unstable growth proved detrimental to the achievement of the poverty reduction objectives adopted in the 1990s by the international community. This is because greater inequality and instability have - as argued above - stifled growth and because, for any given growth rate of GDP, poverty falls less rapidly in case of an unequal distribution than in case of an equitable one (Table 6). For instance, in Brazil, in spite of an increase in income/c poverty stagnated over the 1980s as a result of a surge in inequality (from already high levels). In Cote d'Ivoire, in contrast, the recession-induced steep rise in poverty over 1985-88 was partly offset by an improvement in rural-urban income distribution. And, in Bulgaria, poverty increased much more than predicted by the average fall in per capita income because of a sharp rise in inequality.

Table 6. Decomposition of Changes in Poverty over Time into Changes in Mean Income and changes in the distribution of income

	Total change in poverty (%)	Poverty effect of changes in income(%)	Poverty effect of changes in the distribution of income (%)	Residual (%)
Brazil 1981-8	0.01	-4.49	4.46	0.04
Cote d'Ivoire 1985-8	15.90	16.90	-6.00	5.00
Bulgaria 1991-3	8.10	0.90	6.60	0.60

Source: McKay (1997). Notes: 1. negative values denote reductions in poverty, positive one, increases. 2. The residual is due to the fact that the sum of the changes in mean incomes and in income distribution does not equal the change in poverty (see Datt and Ravallion, 1992).

Overall progress on poverty over the last 15 years has thus been unsatisfactory. In 1990 the World Bank projected a decline in the number of the poor from 1125 to 825

⁹ This expression has been coined - I believe - by Professor K.N. Raj

million between 1985 and 2000. But in 2000 the same institution assessed the number of the poor at 1.124 bn, i. e. some 400 million more than the original target. If China and other East Asian countries - where poverty fell sharply until 1995-6 - are excluded, poverty incidence drops from 28 to 26 percent between 1987 and 1998, entailing an almost negligible rate of decline of 0.18% a year (World Bank 2000)¹⁰.

The extent of poverty reduction by region was clearly influenced by the observed changes in inequality and growth. Poverty rates rose faster than expected on the basis of output contraction in most the former Soviet Bloc where inequality escalated sharply.

Since 1989 poverty escalated sharply in the Balkans, the Caucasus, Russia and the other members of the former Soviet Union. In these countries, between 27 and 35 per cent of the population was in poverty in 1994 as opposed to around 1.5 cent in 1989. In contrast, the Central European countries were able to contain the rise in poverty, though the increase was still significant when compared with past levels. All together, these estimates suggest that between 1989 and 1994 an additional 75 million people entered into poverty in Central and Eastern Europe and that - 8 per cent of the Central European population and 35 percent of the population of the rest of the region were poor by 1993-94. This rise in poverty is confirmed by several indicators of income inadequacy such as the number of cases of pawning, social assistance requests and payment arrears.

In Africa and Latin America the share of the poor remained broadly constant over 1987-98 while the number of the poor rose respectively by 73 and 15 million despite a modest rise in output per capita. The number of the poor declined markedly until 1993 in China and until 1997 in East and South East Asia thanks to rapid growth and only a moderate rise in inequality (see chapter 7). However, with the subsequent sharp increase in inequality (since 1994-5 in China and 1997 in South East Asia progress on the poverty front has stalled in spite of still acceptable growth.

In India, while GDP growth accelerated to 5.6 percent in the 1990s from 5.3 percent in the 1980s, poverty declined only in urban areas that account for a third of the population. Rural poverty rose sharply during the adjustment and post-adjustment years of 1991-93. For the rest of the decade, it stagnated and might have risen among the agricultural laborers. To start with, the demand for labor and the real rural wage rate fell in line with a drop in the growth of food and non-food crops. In addition, government expenditure on rural infrastructure, public works and food subsidies - all of which have a strong poverty alleviation effect - was reduced w the number of the poor declined markedly while food prices rose (Mundle and Tulasidhar 1998).

Unless the Washington Consensus evolves in a distributionally favorable manner, current inequality trends are likely to continue to depress growth and reduce its poverty alleviation elasticity, thus preventing the achievement of the target of reducing the incidence of poverty to 15 per cent by 2015. At the moment, the World Bank estimates that income per capita in the developing countries will grow at an

¹⁰ The extent of poverty - as assessed by the World Bank by means of the PPP\$1/day is an underestimate of the real poverty rate -especially for the middle income developing and transitional economies - in many of which poverty (as measured with more realistic criteria - has risen much more sharply.

average of 4 per cent a year until 2015¹¹. Its impact on poverty depends very much on the level of inequality. If the projected 4 per cent growth is accompanied by 'low inequality' (i.e. as Gini coefficients of less than 43) then the international poverty target can be easily met. In contrast, if the projected 4 per cent growth is associated with higher inequality, by 2015 poverty rates will still be in the vicinity of 20 per cent.

7. Other factors influencing child poverty

A variety of other factors has affected child poverty during the last twenty years. While the relation between changes in these factors and liberalization-globalization is far from being straightforward, and is in many cases very tenuous, the negative impact generated by these changes could have been avoided if policies towards family incomes and other aspects of family welfare had been more pro-active than what have been.

7.1. Demographic factors: birth rates and young age dependency ratios

The risk of child poverty rises in families with a large number of children relative to the number of income earners. Table 7 suggests, for instance, that children living in families with 4 or more children face a 3.2 times larger risk of poverty than an only child. These conclusions are influenced by a variety of factors, including the equivalence scales used for the computation of poverty rates; the value of child allowances and so on. But the important fact remains, i.e. children in large families face a substantially higher risk of poverty.

Table 7. Households in poverty by % of the national subsistence minimum, Hungary 1992

	Below 70% households	70-79%	80-99%	All
In all active households	3.5	2.8	10.1	16.4
- without children	1.7	1.8	6.2	9.4
- with 1 child	3.3	2.2	10.0	15.5
- with 2 children	4.5	3.9	13.0	21.4
- with 3 children	7.5	6.6	20.8	34.9
- 4 and more children	15.4	10.3	23.4	49.1
- in all inactive households (pensioners)	1.9	1.6	8.3	11.8
Total	3.2	2.6	9.8	15.6

Source: UNICEF (1995) Note: The subsistence minimum is the official national poverty line, based on a basket of goods and expenditures for basic necessities, as calculated by the Central Statistical Office of Hungary.

¹¹ This is in itself an optimistic scenario in relation to the recent historical record, see Table 5

In this regard, it is important to note that the risk of child poverty has generally not been influenced by changes in the birth rate. Table 4 shows in fact that birth rates fell in most developing countries. In China, the 'one child family policy' contributed to the decline in the young age dependency ratio and in child poverty. Thus, while high fertility remains an important determinant of child poverty in many developing countries, during the last twenty years this has become less of a problem in most regions with the exception of several African countries¹².

7.2 Family structure and stability

Children in incomplete families face a much higher risk of poverty than children in complete families. The relation holds in all countries, whether developed, developing or transitional. In China for instance children from incomplete families have a poverty rate of 11.6 percent as compared with an overall poverty rate of 5.2 percent or with that of 4.4 percent for a couple with one child (see chapter 7).

Mono-parentality can be a source of severe material and psychosocial deprivation for children. Firstly, there is a much higher risk of falling into poverty because incomplete families have a low ratio of working adults to dependent children. Secondly, there is increased risk of inadequate parental guidance and parent-child interaction resulting in higher probabilities of injury, reduced educational achievement, higher chances of dropping out of school, committing delinquent acts and engaging in drug and alcohol use.

Over the last twenty years the number of incomplete families has risen sharply or remained high in many countries. According to OECD (1990), lone-parent families represent 10-15 per cent of all families with dependent children in member countries, with the exception of Ireland, Japan, and Spain, where the share is less than 10 per cent. However, the proportion of families experiencing a lone-parent 'phase' - and growing risk of child poverty - has grown everywhere.

The increase in the number of incomplete families (with only one parent) results from a number of disparate but frequent events, including the rise in (i) divorce and separation rates, (ii) the number of children born to never-married mothers (mono-parental families) (iii) the number of natural or social orphans due to mounting child abandonment, humanitarian conflicts, AIDS and (iv) adult mortality in transitional economies. Hereafter is reviewed briefly the evidence on some of these trends in the regions most affected:

- **Children involved in divorce and separation.** In all industrialized countries, divorce and separation rates rose sharply, particularly from the early 1970s, the traditional family became less common and other family structures, such as one-parent families became more frequent (Cornia and Danziger 1997);

- **Children born to single mothers.** In the OECD countries the share of out-of-wedlock births in total births, which had declined in most countries until the

¹² This conclusion assumes that the observed decline in birth rates in many countries has concerned all families, i.e poor and non-poor families as well as the families with an initial number of high children.

mid-1960s (or mid-1970s in Southern Europe), it since started to rise rapidly (*ibid*). The proportion of lone-parent families has also been traditionally high in developing regions such as Latin America and the Caribbean countries. And it is increasing also in countries – such as China – where cultural norms strongly condemned such phenomenon (see chapter 7 of this compilation).

- **AIDS orphans.** In the AIDS affected countries (sub-Saharan Africa, Thailand, Burma, Haiti, the regions of India and China near the Thai-Burmese borders, and prospectively Russia and Ukraine) the number of orphans has risen, at times extremely sharply.

Under normal conditions, the percentage of orphans in developing countries generally oscillates around 2 percent. With the onset of AIDS the number of children whose mother or both parents died has escalated dramatically and unprecedentedly¹³ and so have the rates of children abandoned by impoverished HIV-AIDS affected families¹⁴. In several countries of Eastern and Southern Africa the orphan rate (Table 8) has already surpassed the capacity of extended and foster families arrangements and intra community income transfers to cope with the child poverty and deprivation caused by AIDS.

Table 8. Percentage of orphans (0-15) on the total 0-15 population

	1990	2000	2010
Ethiopia	14.2	17.1	17.7
Uganda	16.6	19.7	13.6
Botswana	4.4	16.0	36.0
Namibia	6.9	16.3	32.1
Zambia	21.5	27.4	22.6
South Africa	4.3	9.1	30.0
CAR	13.5	25.7	30.9
Myanmar	2.6	9.6	7.9
Haiti	12.0	12.4	10.3
Total * (%)	8.2	10.9	12.6
Total * (million)	22.2	34.6	44.2

Source: Hunter and Williamson (2000). Note: * concerns 34 countries

HIV-AIDS has developed in a way mostly independent from the economic trends discussed above. Yet, here too there are some linkages. First of all, there is evidence that HIV-AIDS has a higher incidence in highly unequal societies and among the poor, the illiterate and the socially excluded. Second, the impoverishment caused by recessionary adjustments or financial panics such as those intervened in Zimbabwe in the mid 1990s and Thailand in the late 1990s- have increased the likelihood that the poor adopt short-term survival strategies characterized by risky behaviors – such as child prostitution - that contribute to the spread of AIDS and, after a lag, to a rise in the number of orphan and poor children.

- **Children orphaned during humanitarian emergencies.** Child orphanhood, abandonment and poverty have been exacerbated by the growing number of local conflicts and humanitarian emergencies that have affected the developing and

¹³ During the Black Plague, the chance of death were stochastically distributed among all age groups.

¹⁴ In Swaziland, a country with high HIV- AIDS incidence, the number of 'social orphans' broadly equals that of 'natural orphans'. HIV-AIDS appears to be a main factor in this growing rate of child abandonment (personal communication, Unicef-UNAIDS meeting on AIDS orphans, November 2000, Lusaka)

transitional regions over the last 15 years (see chapter 14). Such conflicts are very different from the traditional wars: they are fought by militias amidst the civilian population who is directly affected, involve minors both as fighters and as victims, and cause the large exodus of refugees and internally displaced people during which many children lose their parents or are separated from them. While the precise number of affected children is difficult to estimate, the increase in the number of humanitarian emergencies from about 20 at the beginning of the 1980s to close to 50 in the mid 1990s suggests that the number of orphaned, poor and deprived children has risen sharply in the countries affected.

The connection between rising child poverty and liberalisation-globalisation may seem tenuous, but closer examination would suggest that economic factors - such as growing horizontal inequality, large external shocks and the collapse of the 'minimum state' that are also dependent on economic trends and policies - do influence the risk of conflict and therefore of child poverty.

- rising parental mortality in the economies in transition. In the OECD countries and in many developing countries, mortality rates among the adult population have steadily declined, thus generating - *ceteris paribus* - a favorable impact on the number of orphan and poor children. This has not been the case, however in the economies in transition of the former Soviet Union and, to a lesser degree, of South Eastern Europe. Since 1989, these countries have been affected by a startling stress-related surge in adult mortality induced by poorly designed, inefficient and inequitable economic reforms that have led to a sharp rise in unattended unemployment and income inequality and to the collapse of basic services, law and order and control of risky health behaviors like heavy drinking (Cornia and Panizza 2000).

In Russia, for instance, the mortality rate of males 20-40 years old more than doubled between 1992 and 1994 while that for women of the same age group rose by some 40 percent. Mortality rates rose also for the 40-60 age group. In contrast, the death rates among the elderly, the youth and the children declined or stagnated. Overall, it is estimated that during the period 1989-99, the economies in transition of the former Soviet Union and Southern Eastern Europe have been affected by an excess mortality of 4 million units¹⁵. Of these, some three-quarters concerned women and, especially, men in the reproductive age - a large percentage of whom had dependant children. The risk of orphanhood and child poverty rose markedly. In this case, the relation between, botched liberalisation and child poverty is of paramount importance.

7.3. A social policy neglectful of children

In the middle and high income countries, the rise in child poverty discussed in section 8 is also related to adverse changes in the social policy towards children. Child-related benefits of various kinds and generosity (including paid maternity leave, child care/sick leave, child allowances, and support to orphans and children in difficult circumstances) have been in existence in several developed, socialist and developing nations, including in some low income countries.

¹⁵ 'Excess mortality' is computed subtracting from the observed number of deaths during 1989-99 the number of deaths that would have occurred if the age/sex specific mortality rates of 1989 had remained constant during the entire 1989-99 period

How has social policy for children evolved over the last two decades? In most OECD countries, social security expenditure as a share of GDP expanded until 1980/1 (Cornia and Danziger 1997), at which point major efforts were undertaken to contain public expenditure and budget deficits. While social transfers continued to grow (due to population ageing and high unemployment), benefits and services to children became means tested, excluding more and more children from them, or were not indexed to inflation. As a result, in Italy, Portugal and the United States the real value of such benefits declined and child poverty rose (ibid).

On occasion of the transition to the market economy, real public expenditure on child benefits was cut in several countries. In extreme cases, as in the former Soviet Union and Southern Eastern Europe, child benefits were cut sharply in absolute terms or in relation to social expenditure benefiting other age groups¹⁶. The overall impact of these changes can be summarized by the changes over time in the 'child poverty alleviation rate' of public transfers. As shown in Table 9, the alleviation of child poverty induced by all public transfers declined in Romania but remained broadly stable in Hungary. In Romania, furthermore, the fall of the poverty alleviation rate was more pronounced for children than adults (ibid).

Table 9. Poverty Alleviation Rates of Income Transfers in Hungary and Romania, 1989-93

		1989	1990	1991	1992	1993
Hungary	Households	56.4	-	51.6	-	55.4
	Children	53.4	-	44.8	-	51.2
	Adults	55.5	-	46.7	-	55.8
	Population	54.8	-	46.9	-	55.9
Romania	Households	57.2	47.5	44.7	10.9	32.0
	Children	56.2	49.5	40.7	9.3	25.8
	Adults	59.8	48.5	45.0	10.9	31.2
	Population	57.3	47.6	43.0	10.2	29.3

Source: UNICEF-ICDC 1995.

Child benefits are also lagging behind in the AIDS affected countries of Africa. Some states - such as Zimbabwe and S. Africa have now introduced 'orphan allowances', though these remain vastly insufficient as less than a third of the potential beneficiaries are being reached after several years of program operation. The long term well being of AIDS orphaned children requires greater income support from the central government and international community is needed.

7.4 Weakening of community linkages

Erosion of community solidarity may have also influenced child and, particularly, youth poverty. At least in rural areas, the extended family and the community have, for long, offset the impact of external shocks by means of well tested insurance, credit and redistributive mechanisms. Such traditional mechanisms inevitably weakens with rural-to-urban migration. This undermines extended family, kinship systems and

¹⁶ In Poland, for instance, real pensions rose while child allowances declined.

traditional social networks. Changes in living arrangements are another factor in the weakening of social relations.

Limited nurturing of 'civil society' by a public policy increasingly focusing on the sole task of promoting private exchange and markets might also have been a relevant factor in the erosion of a sense of community. To sustain progress towards social goals, market and state institutions need to be supported by a vibrant civil society comprising churches, trade unions, civic associations and other community organizations.

Where income inequality has risen visibly, the sense of community may have weakened substantially. As social gaps widen, the disparity of interests among economic groups rises, taxation and the provision of services and social benefits decline, residential segregation rises, and political participation and the efficacy of government institutions diminish. High inequality erodes social cohesion and exacerbates poverty. Some of these effects have been recently observed in the countries of the former Soviet Union. In these countries, a rapid rise in asset and income inequality have strengthened the ability of the new élites to resist taxation, thus reducing the ability of the state to provide a modicum of income transfers (including child allowances).

8. Rising child poverty

As it may be expected, where aggregate poverty rose - or declined slowly - young children and adolescents were not spared by this trend. Quite the contrary. The changes described in the previous section (rising unemployment, unstable jobs, income inequality, mounting family instability and of orphans and a weak social policy) point in fact to a more than proportional increase in child poverty in several developing, transitional and developed economies. Likewise, there is evidence that child poverty declined faster than the average in China thanks to rapid growth, a moderate rise in inequality (until 1990) and to improvements in the young age dependency ratio. As a whole, it would appear that in several regions child poverty¹⁷ rose faster than aggregate poverty. Part of the rise in the absolute number of poor children is due to population growth. But, as a whole, demographic factors do not contribute much to the observed rise in child poverty. The problem is to be ascribed to 'child-adverse' poverty dynamics within most regions.

Between the early 1970s and early 1990s, several OECD countries (e.g. the UK, US and Ireland) experienced a decline in poverty among the elderly but a rise in child poverty because of a surge in the number of the working poor, monoparental families

¹⁷ Systematic compilations of child poverty rates are not available, though a number of studies provide country or region specific data as UNICEF (1995) for the economies in transition, De Han (1998) for SSA and chapter 7 of this compilation for China. Child poverty rates can also be estimated indirectly according to the following procedure. One starts from the number of poor people estimated on the basis of the World Bank 1 PPP\$/person/day poverty line. One then multiplies this number for the ratio of the population 0-15 to the total population, to obtain the number of poor children. This procedure implicitly assumes that poverty is distributed in a proportional way across all age groups. To correct for this bias (the literature shows that – even assuming low equivalence scales - child poverty rates tend to be higher than those for the general population) we multiply this result for the 'relative risk of poverty of children' - a ratio that in most cases is higher than 1- that one can at times estimate from the literature.

and policy neglect (Cornia and Danziger 1997). Modest declines were recorded in Canada, Belgium, Finland, Japan, and Sweden. Altogether, child poverty rates increased in nine of the 17 countries for which trend data between 1970 and 1990 are available, stagnated in two, and decreased in six (*ibid*). Two distinct clusters can be singled out: a 'high child poverty cluster' of countries (the United States, Ireland, United Kingdom, Canada, Australia) which experienced an increase or stagnation at high level in child poverty during this period, and a 'low child poverty cluster' (Western and Northern European countries and Japan) whose countries were able to maintain or improve progress made during the 'golden age' by sustaining full employment and low income inequality, or sustained income transfers in favour of the unemployed and children.

The surge in child poverty in EE/FSU, in turn, resulted from the spread of unemployment, low pay, wage arrears and temporary/insecure employment among adult workers with dependent children, a public policy which neglected minimum wages, public work programs and child allowances a steep rise in paternal mortality and a weakening of community cohesion (UNICEF 1995). In this region, in 1989, children faced a 30% higher risk of poverty than the general population but this ratio had risen to 50 % by 1993-4. While the economic difficulties of the last decade affected also the 'old poor', (large and single-parent families, people with disabilities, minority groups and the elderly subsisting on minimum pensions), the biggest increases in poverty was recorded among the 'new poor', i.e. youth in search of first employment, uncompensated or long-term unemployed, retrenched low skilled workers, a growing number of 'working poor' and their dependents and migrants and refugees. Contrary to the widespread perception that the aged are the main victims of the transition, there is evidence that poverty has struck harder at children, the unemployed and the 'working poor' than at pensioners. In Russia, in July-September 1992, the incidence of poverty among children under-15 stood at 46 per cent, while for adults in the 31-60 age bracket it was 35 per cent, and for male pensioners 22 per cent.

In Latin America, despite a sharp drop in birth rates (which reduces the number of siblings per family), child poverty likely rose faster than average because of slow growth, the informalisation of employment, a surge in wage dispersion and a drop in minimum wages - all factors that raise the proportion of 'working poor' with dependent children in the total working population. The persistence of monoparental families at a high level was an additional factor. In Africa, the impact of economic stagnation on child poverty was compounded by the spread of AIDS-related and conflict-related morbidity and mortality among male and female breadwinners and the consequent rise in the number of orphan children who face extremely high risks of poverty. An observable - but difficult - rise in social stigma has compounded the problem by reducing intra-community transfers of income, time and support.

In India, despite rapid overall growth in the 1990s and the decline in birth rates, the persistence and spread of poverty among agricultural laborers (who have a higher fertility than average) and the fall in poverty in urban areas (where fertility is lower, even among the poor) contributed to a rise in the number of poor children both in absolute terms and relative to the number of other age groups.

Finally, in China, fast growth in labor demand and output in rural areas and the labour intensive export -led manufacturing sector accompanied but a fairly egalitarian distribution of income within each main province contributed to a fast rise in the incomes of most wage earners those with dependent children. This effect was strengthened by the rapid decline in birth rates (1.5 in the 1980s and 1.1 % in the 1990s) which reduced the young age dependency ratios and the average number of children per income earner (see chapter 7 of this compilation).

9. Conclusions: which policies for rapid poverty reduction among children?

As argued by SCF-UK (2000), child poverty and children needs should not be treated as a special case of development policy. Indeed, that of child poverty is the major development problem faced by the international community. Treating this as a 'special case' to be addressed by means of social programs alone would be a major mistake -both for the children themselves – and for economic growth. Children are particularly susceptible to even comparatively short periods of poverty. Malnutrition during early childhood, for instance, can impair a child's physical and mental development by causing permanent brain damage. And a sharp fall in family incomes might cause the child to be pulled out of school and employed in hazardous activities which can generate permanent adverse effects. Avoiding child poverty – and in particular acute temporary spells of poverty - should thus become a major development goal.

Child poverty is also important from another perspective. As argued above, poor children account for close to half of the total number of poor and their relative risk of poverty is increasing over time. Combating child poverty - and all its manifestations in terms of child malnutrition, labor, exploitation and so on - ought therefore to be the centerpiece of a development approach focusing on overall poverty eradication.

This paper has argued that the global policy choices towards liberalisation-globalisation have in several (but certainly not all) cases impacted negatively on child poverty. If this is true, the future reduction of child poverty must then address not only the key issues of child benefits, family stability, social cohesion and demographic change discussed in this paper but deal with the same attention with the sources of slow, unstable and unequal growth as well as with the structural causes of poverty and inequality that have been dropped off the poverty agenda during the years of liberalisation-globalisation.

9.1. Addressing the structural sources of poverty

Addressing the problem of poverty in poor agrarian economies requires measures of asset and income redistribution, e.g. well-designed land reforms. In Central and South America one third of rural households remain landless and land reform in Southern Africa is urgent. Wage inequality is high in these countries as unskilled wages are driven down by the excess supply of landless labourers, a situation that is reversed by land reform (Iglesias 1998).

In several developing countries public spending on education, health and transfers is insufficient and biased towards the non-poor (van de Walle, 1998). Though socially desirable, the reallocation of public expenditure in periods of stagnant budgets may be opposed by a difficult political economy. In several countries, pro-poor redistribution at the margin could be achieved in contrast by raising moderately the tax/GDP ratio. At the moment, wealth and property taxes account for a mere 1-2 per cent of total tax revenue in most developing countries while income tax also generates a minimal revenue. If the political power of the wealthy can be overcome, then taxation of land, urban property, capital-gains and financial rents can raise additional revenue to be allocated to educational expansion and other pro-poor activities. As shown by the case of Chile over 1990-92, redistribution via the budget can indeed work (Scholnik 1992).

Regional and ethnic bias in public spending and employment exacerbate both horizontal and vertical inequality and contribute to violence and genocide. Large countries often combine a well-developed modern sector with remote and poor backward areas, often inhabited by people of a specific ethnic origin. In Mexico, 80 per cent of the indigenous population is poor, while only 18 per cent of Caucasians are poor (Psacharopoulos and Patrinos 1994). Infrastructure and education investment in poor regions is generally more effective in reducing urban bias and regional inequality than welfare transfers or fiscal incentives.

9.2 Addressing the new sources of poverty: inequality and instability

With its rush to promote ill-designed privatization and premature liberalisation of financial markets in the presence of weak regulatory capacity, the Washington Consensus has contributed to rising inequality and growth volatility. Thus, while important, especially for countries with a large number of rural poor, the measures illustrated above will not be able to contain the upswings in child poverty caused by the recent rise in inequality. This is particularly the case of the poor in FSU/EE. Thus, to accelerate poverty reduction, the dominant liberalisation- globalisation paradigm must also explore alternative adjustment and structural reforms.

A first key element of a strategy focussing on child poverty reduction consists in running a macro-economic policy that minimizes output volatility and avoids sharp recession-induced rises in inequality. The benefits of reducing output volatility are considerable. In Latin America, a three percentage point reduction in the volatility of GDP growth would reduce the Gini coefficient by 2 percentage points (IADB, 1998) and increase markedly the poverty alleviation elasticity of growth. A reversal in the decline of real aid flows and more official debt relief - together with international mechanisms to dampen the volatility of commodity-prices and short-term portfolio flows - are possible avenues to stabilize incomes of poor countries during turbulent periods. Indeed, globalization would gain substantially from the introduction of stabilizers and insurance mechanisms available to many Western countries but not to developing countries.

Particularly in transition economies, the distributive impact of privatisation needs to be addressed. In addition to leading to a highly regressive asset redistribution, insider privatization failed to raise economic efficiency. Greater attention to the institutional

design of privatization, and greater caution in its use, is needed. Privatization is now a "done deal" in many countries. So, regulation is often the key entry point for equity concerns. Privatized utilities illustrate the issues (see chapter 11 of this compilation). Various regulatory mechanisms and subsidies to ensure service delivery to the poor can be deployed.

International action to curb destabilizing short-term capital flows could prevent the emergence of damaging financial crises and enhance the scope for avoiding sharp recession-induced increases in inequality and poverty. In the meantime, a reversion to capital controls seems inevitable if countries wish to assign monetary and fiscal policy to achieving growth. For instance, capital controls to support the currency have enabled China to reflate its economy to offset privatization's social costs.

No doubt, more policy suggestions could be added to this list, in particular the need to ensure a healthy balance of power between capital and labour and to design appropriate labor market regulations. Discussion in each of these areas shows that equity is not necessarily in conflict with efficiency - indeed well-designed macroeconomic, structural and redistributive policies may raise growth, thus shifting economies towards the optimal combination of inequality, poverty reduction, and growth discussed above.

9.3 Buiding a symmetric and incentive-compatible global market

A reduction in volatility and inequality would likely to reduce inequality, heighten growth and reduce the number of poor children. Equally important gains would be obtained however, if liberalisation and globalisation were to remove the barriers and inequities that still characterize the world economy and the domestic economies in many developing and transitional countries. The characteristics of a 'fair, symmetric and incentive-compatible global market' are not fully clear but some of their features are already broadly agreed upon, if not yet implemented. Removing protectionist barriers in the North and South, allowing adequate transitory regimes to weak countries, establishing a minimum of resource transfers via global taxation, and develop global democratic institutions to regulate and oversee the development of a such an incentive-compatible global market framework.

9.4 Social, family and child policies

As indicated above, in most countries of the North and the South, benefit policy in favor of children has been eroding for a variety of reasons. So have other programs that, though directed to the parents (e.g. unemployment subsidies, public works, social assistance), do affect child welfare. These elements of a child friendly global development policy need to be maintained and expanded. The costs involved are generally modest while the benefits are considerable.

Policies promoting family stability are also important as these are generally neglected. The surge in incomplete families depends on a variety of factors - and therefore the responses will vary from a place to another - but the causes and effects on children of changes in family structure and stability need to be understood and addressed everywhere. Children from incomplete families are not only at far greater risk of poverty, but also of a series of other severe problems. They ought to be the priority

target group of any policy focusing on children. A child friendly globalization policy ought therefore to focus on ways to control the negative effects on children of any kind of shock not only those shocks that are caused by changes in economic policies.

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