Chapter 10
A macroeconomic policy for children in the era of globalisation *

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Summary: This chapter deals with the role of macroeconomic and social policies form a "child friendly" perspective against the background of threats as well as the opportunities posed by globalisation. The closer economic integration produces restrictions for autonomous policy making and increases susceptibility to external shocks in large part of the developing world. A number potentially harmful pressures on child welfare connected with globalisation are discussed, such as a dominance for monetary and financial targets (at the expense of the support to employment and welfare), a tendency to "short term dimension" in economic policy-making, an erosion of social safety nets, the increasing inequality in a majority of countries or the trend towards informalisation of labour market and the weakening of labour institution. As for recommendation and policy options the author maintains that the best interest of the child should permeate macroeconomic policy in a more conventional sense – embracing fiscal policy, monetary policy, exchange rate policy, etc. – as early and as comprehensively as possible. Child-friendly policies are needed to counteract the negative aspects of globalisation and to enable countries to reap social and economic benefits deriving from a closer integration in the world market.

JEL: E61, E62, E66, H53, I31

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

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Introduction

Macroeconomic policy-making is often "child-blind". Still, even policies such as monetary policies, which appear to have very little to do with children, often have a bias for or against the best interest of the child.

An erroneous exchange rate policy can do more harm to a country´s children than, say, an incompetent Minister of Education.

Macroeconomic shocks are particularly harmful for the poor, whose margins are small or non-existing. Crises are often accompanied by rising inequality. During crises, the children of the poor often face malnutrition and frequently drop out of school. Even brief crises can produce irreversible damage on poor families´ human capital formation, and reduce their ability to escape the poverty trap.

The purpose of the present paper is to discuss macroeconomic policies from a "child-friendly" perspective. Policies which reduce the risk of macroeconomic shocks, and which mitigate the impact on the poor when a crisis does occur, are essential components of a pro-child strategy.

The paper is divided into two main parts. The first part begins with a discussion of threats to macroeconomic stability and children´s well-being in an era characterised by liberal ideology, globalised capital movements and increased susceptibility to external shocks. Special emphasis is put on repercussions of globalisation on national macroeconomic policy-making; to what extent does globalisation limit the degrees of freedom for developing country governments in choosing appropriate macroeconomic policy instruments?

In a second part, policy options from a children´s perspective are discussed. Given the constraints discussed in the first part of the paper, how could macro policies be designed in order to make them more child-friendly?

1. The External Setting

1.1 Diverging Paths

We are today witnessing increasing polarisation of nations in respect of incomes and opportunities. The gap between the very rich and the very poor countries continues to widen, and within the developing world, the last 10-15 years have, in very general terms, been characterised by rapid growth in Asia, slow but erratic recovery in Latin America and decline in most of Sub-Saharan Africa as well as in the former Soviet Union.

The accelerating process of modernisation, urbanisation and globalisation is opening up new possibilities for economic development in many parts of the world. A number

of countries, most notably in Asia, have been able to seize the opportunities offered by the closer integration of their economies with the dynamic world market. Rapid economic growth, underpinned by massive investment in human capital, has transformed the economies in an amazingly short period of time, and most indicators of human development reveal remarkable and sustained progress.

In these countries, the young are the major winners. Their access to food, shelter, education and health services is vastly superior to what the older generations could enjoy when they were young. A number of social indicators - such as infant mortality rates, educational achievements, and life expectancy - reveal a truly remarkable improvement over the last few decades, and there is every reason to believe that the situation will improve further.

In other countries, especially the poorest ones, the process of closer integration into the global economy has failed to produce positive results. In the late 1990s, more than 80 countries in the world had per capita incomes lower than one decade earlier (UNDP, Human Development Report 1999, p. 2). In a majority of countries in Sub-Saharan Africa, poverty increased in both absolute and relative terms between 1980 and 2000.

The marginalisation of the poorest countries in the world is illustrated by the fact that the 49 so-called Least Developed Countries (LDCs), with over ten per cent of the world´s total population, today account for less than one per cent of world output. The share of the LDCs in world trade has decreased from over one per cent in 1980 to less than 0.4 per cent today, and their share of total foreign direct investment (FDI) has declined to only 0.2 per cent.[1]

The global trend in increased inequality and insecurity is parallelled by an accentuated polarisation within individual nations. There is conclusive evidence that the distribution of income has become more unequal in a majority of both industralised and developing countries in recent years (chapters 1 and 4 of this compilation).[2]

1.2 Trends in Development Thinking and Policy

The collapse of the Bretton Woods system in the early 1970s marked the end of what is sometimes called the "golden age" of development, characterised by macroeconomic stability and a respectable rate of economic growth in most parts of the world.

Development thinking was strongly influenced by the fact that leading economists and development institutions - such as the World Bank and bilateral aid donors - encouraged development strategies which gave the public sector a prominent role in managing the economy. The main focus was on economic growth, but the social aspects of the development strategies were highlighted by the frequent use of paradigmatic labels such as "basic needs", "growth with equity" or "redistribution with growth".

[1] See UNCTAD, LDC Report 2000
[2] See, for example, Kanbur & Lustig (1999) or Cornia (1999a)

In economic policy-making governments hade a wide range of instruments at their disposal (many of which were not only used, but misused, which helped to pave the way for subsequent liberal attacks against the interventionistic state). Conventional macroeconomic instruments such as fiscal policies, monetary policies and trade and exchange rate policies were largely subordinated the overall development strategy, often based on import substitution. In addition, development-oriented governments were regarded as having a legitimate role in the direct provision of finance for development, support to employment schemes, the direct undertaking of investment in infrastructural and basic industrial projects, the granting of subsidies on housing and basic foodstuffs, etc.

While the wellbeing of children was not explicitly on the agenda in the overall macroeconomic policy discussion, the emphasis on growth, equity and employment can be said to have had a welfarist, pro-child bias. In Latin America as well as in many of the newly independent nations, where social sector development had been severely neglected under colonial rule, high priority was accorded basic social services such as health and education, where advances were often remarkable during the 1960s and 1970s. Much emphasis was also, not least among several of the specialised UN agencies, given to explicitly child-focussed areas such as mother and child health and immunisation programmes where, again, considerable progress was made.

After 1973, the global economy has been characterised by a number of of severe macroeconomic shocks, beginning with the oil crises and subsequent global recessions of the 1970s. In the industrial countries the dominant response was a policy shift from growth-promoting to inflation-fighting macroeconomic policies. The rise in international interest rates and decline in commodity prices that followed after 1980 exacerbated the deep and protracted debt crisis in large parts of the developing world.

Naturally, many countries suffered not only from external shocks - domestic policy failures have given rise to, or magnified, a large number of macroeconomic crises. Since this paper´s primary focus is on pressures and instability originating from the globalisation process it will, however, largely disregard the role of purely national policy mistakes.

During the last ten-fifteen years, a series of severe financial crises have affected both developed and developing countries. Macroeconomic volatility has increased, together with a pervasive sense of economic insecurity at the household level.[3]

At the same time, globalisation and the dominant free-market paradigm of the past decades have reduced the number of macroeconomic policy instruments available to governments wanting to reduce the risk of external shocks and to mitigate their effects.

The responses to macroeconomic shocks during the past twenty years have largely been based on contractionary policies aimed at stabilising monetary rather than real variables. As observed by the Joseph Stiglitz: "Ironically, macroeconomic stability -

[3] See "Voices of the Poor" (World Bank 2000), Lustig (1999) or Rodrik (1999) for different perspectives on the increased insecurity and vulnerability of the poor.

as conceived by the Washington consensus - typically downplays stabilizing output and employment. Minimizing or avoiding major economic contractions should be one of the most imnportant goals of policy". (Stiglitz, WIDER Annual Lecture 1998).

The subordination of economic and social policy instruments to concerns about the capital account of the balance of payments has become a frequent phenomenon in the management of macroeconomic shocks in recent decades in both industrialised and developing countries, and macro policies have become increasingly influenced - and constrained - by the international financial markets.

1.3 The Enhanced Role of Financial Markets

The perhaps most striking aspect of globalisation is the new and more important role assumed by the global financial markets. Turnover on the world´s currency markets has multiplied during the 1990s and is now estimated to be reaching over 2,000 billion USD per day which, to make just one comparison, amounts to more than ten times the GDP of all 49 LDC countries combined.

The development is the result of the IT revolution, making instant communications and transfers of capital possible, and of political decisions to deregulate all leading financial markets. Today, a large majority of developing countries have also liberalised their foreign exchange markets, and full convertibility on both the current and capital account is common also in many low-income countries.

The domestic policy implications of the enhanced role of global financial markets - such as the need to counteract the increased sucseptibility to external shocks and the risk of "contagion" from financial crises occurring in other parts of the world - will be further discussed in a subsequent section. Suffice it here to stress that global economic developments have become increasingly dependent upon the moods on the global - and domestic - financial markets; we are reaching a situation in which the tail (financial markets) is wagging the dog (production, employment and welfare).

The increased role of financial markets during the past twenty years is also reflected in the gradual shift in emphasis in economic policy-making that has taken place in favour of financial indicators related to inflation, fiscal deficits, bond yields, stock prices, currency fluctuations, etc. As a reflection of this, an anti-inflationary rather than employment-creating objective has come to dominate macroeconomic policy priorities in both developed and developing countries. Although the issue of the existence of a trade-off between employment and inflation is a highly controversial question, the fact that the financial markets have a strong preference for policies which reduce inflation rather than unemployment, and which reduce the role of public expenditures and fiscal deficits, has clearly had a pronounced effect on actual policies in many countries.[4]

As in so many other areas of macroeconomic policy-making, the pressures exerted and the choices made are not "age-neutral", or "child-neutral"; different age groups

[4] The prolonged recession in Japan and the economic downturn in leading industrial countries in 2001 may, however, produce a shift - from a deflationary bias in favor of expansionary policies - in what global financial markets perceive as "sound economic policies".

are affected in different ways by inflation, and by policy choices giving priority to anti-inflationary objectives (se further part 2 below).

In a world economy strongly influenced by highly volatile financial markets, one element of fundamental importance to families with children - predictability - is likely to suffer. Politicians may also find it increasingly difficult to maintain a long-term perspective in their economic policy-making. Financial markets react to short-term events and do not, for obvious reasons, take the well-being of children into account; it is not their job. To a stock-broker or currency trader to whom "long term" may mean one week, investments in children´s health and education have too long gestation periods to be considered.

1.4 Structural Adjustment Programmes

For a majority of developing countries, and in particular the poorest ones, economic policy-making during the past two decades has been more strongly influenced by structural adjustment programmes (SAPs) under the auspices of the Bretton Woods institutions than by international financial markets. There are, however, many similaritites between structural adjustment policies and the pressure from financial markets and from global institutions like the World Trade Organisation (WTO). Even in areas such as trade liberalisation SAPs have often been more demanding than the WTO itself. We will therefore begin the discussion with an overview of key issues related to structural adjustment, bearing in mind that similar kinds of pressure also originate from various other sources, such as WTO, bilateral aid donors, financial markets and the global spread of liberal ideology in the 1980s and 1990s.

1.4.1 General

According to a conventional definition, SAPs include a wide range of measures intended to reduce internal and external deficits and increase efficiency in the economy. Basically, the programmes consist of two different, but mutually supportive, sets of policies, which form part of what has been called the "Washington Consensus" (where Washington stands for IMF and the World Bank; sometimes the US Treasury is also included):

1) Macrostabilisation (normally under the supervision of the IMF), with the following key ingredients:

- Contractionary fiscal policies, i.e. a reduction of government expenditures, and the introduction of charges and user fees on a number of public services;

- Tight credit and monetary policies to reduce the rate of inflation;

- Attempts to reduce deficits on the external account by cutting down aggregate demand, and thereby imports, and by exchange rate devaluation to enhance the domestic economy´s international competitiveness.

2) Structural reforms, or adjustment measures - often implemented with strong support from the World Bank - which typically include

- Deregulation, e.g. removal of domestic price controls and government regulations, and a reduction/removal of state subsidies (e.g. on food, energy, transportation);

- Privatisation of state enterprises, sometimes including a number of public services (such as communications, electricity and water supply, sometimes health and education);

- Liberalisation of the foreign trade regime (e.g. reduction of tariffs and, in particular, of quotas and other quantitative restrictions on foreign trade);

- Financial sector reform (e.g. banking deregulation);

- Public sector reform, aimed at increased efficiency ("smaller but better government");

- "Flexibilisation" of the labour market, normally implying reduced job security and the elimination of minimum wages.

Several of the objectives behind adjustment policies reflect little more than economic "common sense". A criticism of SAPs does not imply a defense of irresponsible macroeconomic management; it is quite obvious that large fiscal deficits, huge balance of payments disequilibria or hyperinflation reflect policies which are both harmful and unsustainable.

In particular, it should be stressed that massive foreign borrowing preceded structural adjustment in a majority of SAP countries. From a children´s point of view, there are few things that are as harmful as unsustainable foreign indebtedness. In a short-term perspective, foreign credit may appear to be a comfortable option for a nation´s political leaders, and if the borrowed money is invested wisely, it may even be good in a longer-term perspective. But taking up foreign loans also implies a mortgaging of the future, and borrowing today often boils down to theft from today´s children and adolescents who will have to repay the debts tomorrow.

This is not the place to attempt an overall evaluation of the adjustment programmes. Suffice it to say that, by and large, in terms of macroeconomic achievements (economic growth, savings and investment, foreign trade, etc.), the record has been very poor in most of Sub-Saharan Africa and in a majority of transitional economies. The debt burden - which was the problem which triggered the adjustment programmes - is, in a majority of African countries and transitional economies, even heavier today than it was in the 1980s.

As a crude generalisation the adjustment programmes have, in conventional macroeconomic terms, been more successful - or perhaps less unsuccessful - in Latin America and Asia than in Africa.

The social effects are in general considered poor, or very poor.

The design of the programmes - largely because of massive criticism and unsatisfactory results - has undergone substantial modifications since the 1980s. While the early phases of adjustment were almost exclusively concentrated on monetary management and deregulation and liberalisation, the tendency today is a shift towards paying more attention to social issues, and to the programmes´ impact on poverty and social sector development. There is also a pronounced tendency to move away from the strict policy conditionality of the 1980s and early 1990s and instead emphasise the importance of the adjusting countries´ "ownership" of the reform programmes.

The World Bank, in particular, has been more concerned with poverty issues in the last few years, and spokesmen of the Bank have sometimes expressed harsh criticism against the dogmatic belief in liberalisation displayed by the IMF. A "post Washington consensus", with more emphasis on poverty reduction, institution-building, public goods and market failures rather than government failures may be emerging.

1.4.2 Structural Adjustment and Children

When austerity policies lead to a decline in public expenditures on social services, which has often been the case, poor households, and in particular women and children, are directly affected.

Parafiscal instruments such as user charges on social services have often accompanied structural adjustment, in particular the first generations of programmes. The need to pay school fees for the children, and to cover other family expenditures when user charges have been introduced or raised, often obliges the woman/mother to seek paid employment. While improved integration of women in the labour market should in no way be seen as harmful in itself, women are often "pushed" rather than "pulled" into poorly paid occupations to cover rising costs for child health and schooling.

Many structural adjustment programmes have been designed in open contradiction with the provisions in the Convention on the Rights of the Child (CRC). Not only the spirit of the Convention, but also the letter, has often been flagrantly violated. In particular, Article 28 states, in unequivocal terms, that governments have the obligation to "make primary education compulsory and available free to all". The introduction of school fees that often accompanied the first generations of structural adjustment programmes is simply incompatible with the CRC.
In general, stuctural adjustment implies a change in relative "prices" between paid and unpaid work, in favour of the former. The invisible work done by women is not counted, and the reproductive and caretaking burdens normally shouldered by women are devalued, compared with production for the market. As a consequence, the intra-household terms of trade are likely to deteriorate for the woman - and for the children.

The combination of increasing costs of raising children and the needs to generate additional cash income provides a strong incentive to make children leave school and contribute to the family income at an earlier age than before.[5] There is, as a result, a

[5]For a number of concrete examples, see the study by Booth et.al (1995) on the social impact of the introduction of cost recovery in primary health and education in Zambia.

strong link between policies which have often accompanied structural adjustment - such as the introduction of user charges in primary health and education - and child labor and rising drop-out rates.

A common pattern is that the girl child is the main loser when school fees are introduced, or when unemployment makes the family feel obliged to taken children out of school. This difference in behaviour - which is common in countries affected by economic crises in general - implies that the schooling of girls is treated as more of a luxury, and less of a necessity, than is that of boys.

The costs for children of increased unemployment in the wake of adjustment policies should also be borne in mind in this context (on children and unemployment, see further below).

In transitional economies, such as the majority of the former Soviet republics, the effects on children of structural adjustment have been profound, as witnessed by the sometimes dramatic deterioration in indicators related to children´s well-being.[6] While this observation should in no way be interpreted as a defence of the earlier central planning system, the drastic shift to market-oriented policies has often signified a combination of a conventional economic crisis - with rising unemployment, declining real wages, etc. - and a weakening of traditional safety nets.

In a study on the social effects of adjustment policies in Mongolia[7], it was concluded that "the real losers in the transition process are women and children". The process of privatisation, retrenchment, "flexibilisation" of the labour market and reduced public support to families and children resulted in an undermining of existing social and community support systems and in a number of harmful consequences for affecting children. Since many of these negative effects were manifest in the reproductive sphere of the economy they went unrecorded in official statistics - the families had to absorb the costs of adjustment.

These hidden costs need to be made visible, in order to fully capture the impact of adjustment policies on children. For example, the increased child labour - often in activities such as care for siblings, cooking, collection of firewood and water, animal care, and house maintenance - may lead to a poverty spiral, with children neglecting school while helping the families to cope.

The mechanisms are to a large extent are to do with changes of women´s time use and work load. However, conventional economic statistics fail to capture what happens in the reproductive sphere of the economy, where many of the negative effects are being felt. When there are positive effects of adjustment policies these are, on the other hand, likely to take place in the productive sphere of the economy, where data is collected.
As indicated earlier, there is today a clear tendency to move away from the simplistic "Wahsington consensus" and pay more attention to poverty issues and the social costs of adjustment. The issue of child welfare is still rather low on the agenda, however.

[6] See, for example, Cornia and Danziger (1997).
[7] Caroline Harper (1998) and personal communication with the author.

1.5 External Instability: Greater Uncertainty and Susceptibility to Shocks

There are many forms of instability originating from the external sector and although the evidence is far from conclusive, it appears as if certain forms of instability for developing countries have become accentuated with closer integration into the world economy.

Heavily fluctuating commodity prices, to begin with, are still a source of concern for many countries which have not been able to diversify their exports. The past three decades witnessed dramatic increases in most commodity prices in the 1970s, followed by a long period of depressed prices since the early 1980s. According to some authors,[8] terms of trade fluctuations could account for as much as fifty per cent of output fluctuations in developing countries in recent decades.

"Aid cycles" have also become common.[9] While this particular form of instability should not be blamed on the globalisation process, the fact is that aid from many bilateral donors has been highly volatile in the past decade; indeed, aid donors have often displayed a pro-cyclical herd behaviour similar to that of financial markets, and increased their ODA during "good times" - typically after an agreement on structural adjustment has been signed with the IFIs - and reduced aid when relations with the international financial institutions have been strained.

Overall, ODA has become a stagnating source of revenue for developing countries in the last ten years. Total ODA has been falling slightly since the 1980s, and more and more of the aid - in particular from the EU - has been channelled to middle-income countries in the Middle East, North Africa and Eastern Europe and former Yugoslavia.

Aid to the 49 least developed countries has declined dramatically: from 32 to 18 USD per capita and year between 1990 and 1999.[10] This development has occurred parellel to a deep and protracted deterioration of low-income countries´ terms of trade.

For middle-income countries, the greatest instability has originated from the financial markets. A number of very severe financial crises have shaken global markets during the last ten years. In virtually all these cases, liberalisation of the capital account preceded the financial crises (see further part 2 below). As is well known, the social and economic effects have been very serious in all countries concerned, and the contagion from one or several of these crises has affected virtually all developing countries in the form of currency turbulence, higher interest rates on international loans, lower export growth and a reduced flow of foreign direct investment.

While greater openness to international trade has brought enormous benefits to many developing countries, the increased openness has also carried costs. Apart from the

[8] See IMF, World Economic Outlook, October 2001, p. 85, for relevant references.

[9] On the high volatility of aid flows in Sub-Saharan Africa, see IMF, World Economic Outlook, October 2001, According to a recent study referred to by the IMF (op.cit. p. 36) aid flows to Africa are both highly volatile and pro-cyclical, i.e. positively related to the countries´ own cycles.

[10] For further data, see UNCTAD, LDC Report 2000.

traditional losers from trade liberalisation - people who lose their jobs in import-competing industries, or farmers whose prices and incomes go down when food imports, not least from industrial countries, flood the domestic market - it also appears as if greater openness to trade may expose a country to greater risk from external shocks. A recent study finds clear evidence that small and more open developing countries suffer more volatility in their growth performance than other countries (Easterly/Islam/Stiglitz, 1999). As observed by Stiglitz (1999, p. 11 ff.), poor countries may also find it particularly hard to buffer these shocks and to bear the costs they incur, and they typically have weak safety nets, or none at all, to protect the poor.

The responses to macroeconomic shocks during the past twenty years have largely been based on IMF austerity rather than on Keynesian policies. As stressed by many authors[11], the debt crisis of the early 1980s resembled, in terms of the severity of the economic decline that took place in Latin America and some other developing countries, in many ways the Great Depression in the United States during the 1930s, but the responses were radically different.

In the United States, the Great Depression stimulated a set of government programmes (the "New Deal") which greatly expanded the role of the government by, inter alia, establishing social safety nets and providing social insurance. The policy response to the debt crisis of the 1980s, and to most macroeconomic shocks affecting developing countries in recent years, has, on the other hand, been reforms that have actually served to weaken institutions of social insurance. Also, as observed by Rodrik in reference to Latin American experience, "...the economic insecurity generated by the prolonged debt crisis was only amplified by the market-oriented reforms that all countries of the region eventually adopted without instituting complementary programs of social insurance" (Rodrik, 1999, p. 8).
While the above analysis refers to Latin America, it is also relevant for an understanding of policy responses in many other parts of the developing world.

1.6 Shocks and Vulnerability: A Household Perspective

Economic insecurity ranks very high among the concerns of the poor.[12] Shocks can be of many different kinds - such as illness or disability in the family, or the death of a breadwinner - but we will in this context concentrate on macroeconomic crises which, like natural disasters affecting entire regions, are examples of aggregate, or covariate, shocks.[13]

Poverty implies vulnerability, and the poor are particularly vulnerable to negative shocks for a variety of reasons.[14] In most developing countries the poor have little or no access to

[11] See, for example, Dani Rodrik, 1999.
[12] See the World Bank´s "Voices of the Poor" (1999), based on participatory poverty assessments.
[13] Terminology taken from Lustig (1999), who distinguishes between aggregate or covariate shocks and idosynchratic shocks. Naturally, in cases of large-scale edipemics such as HIV/AIDS in the worst affected countries, idiosyncratic shocks like individual illness and death assume the characteristics of aggregate shocks.
[14] See Lustig (1999) for a highly interesting discussion and references to empirical studies.

public social insurance schemes, and their access to private market insurance or credit mechanisms to smooth their income is also severely restricted. In a study from India[15], it was found that for the poorest decile 40 per cent of a negative shock is transmitted to current consumption, while for the richest third just over ten per cent of an income shock is passed on to lower consumption.

The economically poor also typically lack political influence and voice to demand the protection of pro-poor programmes and public safety nets in times of fiscal retrenchment. Aggregate shocks such as macroeconomic crises also have the effect of weakening traditional safety nets and informal insurance arrangements as they typically affect larger groups of people who all become poorer.

Even macroeconomic crises of brief duration can easily produce long-term negative consequences for the poor. Many families suffer from "cyclical poverty" when employment opportunities and real wages experience a sudden deterioration.

If the parents have the skills or luck necessary to come back to the labour market the long-term impact is often limited, but cyclical poverty may also have a permanent impact on the affected families. If a sudden crisis results in children suffering from malnutrition or being taken out of school, or in domestic violence or family disruption, cyclically poor children are at risk of becoming chronically poor, with long-lasting handicaps for themselves and their children. There is today massive empirical evidence[16] related to indicators such as child health and nutrition and school attainment showing the negative effects on poor children of macroeconomic shocks.

The deeper and longer the crisis, the greater the danger that poverty becomes entrenched and that irreversible damage is done to human capital.

The social costs of the "boom-bust cycles" experienced in many developing countries are accentuated by the pronounced asymmetrical behaviour of social indicators over the business cycle. Thus, while setbacks in terms of unemployment and increased poverty often occur abruptly when the crisis breaks out, recovery tends to be slow and incomplete.[17] Unrecoverable loss of human capital also occurs as children leave school never to return, people lose experience, job connections and sometimes even self-esteem when they are being laid off, small-scale entrepreneurs lose their assets and never regain them, etc.

1.7 Threats to government revenue

Many governments in poor countries have seen their tax revenues erode, for a number of different reasons. Much of this erosion is, of course, due to economic decline - a

[15] Referred to in Lustig (1999, p. 2).
[16] For useful references see, again, Lustig (1999).
[17] For a good discussion of Latin American experience in this respct, see ECLAC (2000), chapter 8. A similar, asymmetrial behaviour with regard to income distribution in Latin America is also observed by Cornia (1999 a), who concludes: "The income polarization of the 1980s was the result of fast inequality rises during recessionary spells and slow declines during periods of recovery."

very large number of countries in the developing world have witnessed a decline in per capita income over the last ten or twenty years, implying lower real wages, reduced business activity and less income to tax.

Overall, total tax revenue in poor countries declined from 18 to 16 per cent of GDP between the early 1980s and the late 1990s (UNDP, Human Development Report 1999, p. 7).

The fact that poorer countries rely more heavily on taxes on export and import trade than do richer countries implies that trade liberalisation constitutes a threat to government revenue. On average, tariffs and other trade-related taxes and duties accounted for around 30 per cent of total government revenue in Sub-Saharan Africa in the early 1990s (Ojejide, 2000), a far higher share than in middle- and high-income countries, but tariff reductions have been substantial[18], and this source of revenue is gradually losing its importance.

Another revenue-weakening effect of globalisation is tax competition. In a world with free, or at least freer, capital movements there is increased pressure to reduce taxes on so-called mobile tax bases, such as capital income, pop stars and transnational corporations. Global competitive pressures make governments wary of taxing businesses as well as well-educated professionals for fear that foreign, or even national, businesses and individuals will flee elsewhere.[19]

The proliferation of tax havens, and options to move capital to tax-free off-shore accounts, also makes it increasingly difficult to tax the rich. According to IMF estimates[20], such off-shore accounts now contain around USD 8 trillion - equivalent to the GDP of the United States.

Electronic trade is another source of concern for today´s tax collectors. While e-trade opens great opportunities, not least for developing countries, to find customers overseas and to cheapen international marketing and trade, the growth of electronic trade will further expand opportunities for bypassing local and national tax systems.

The end result of these pressures, largely but far from exclusively originating from the process of globalisation, is increasing difficulties in financing the state budget and, in particular, in doing it in an equitable way; tax systems in deloping and developed countries alike rely more and more heavily on less progressive indirect taxes and on less mobile tax bases such as families with children.

1.7 Conclusion: Higher Instability but Fewer and Weaker Policy Instruments

[18] For data on trade liberalisation in low-income countries, see UNCTAD, LDC Report 2000.
[19] For a good discussion see UNRISD (2000), chapter 2.
[20] Referred to in UNRISD (2000, p. 34)

The world economy has become more insecure since the collapse of the Bretton Woods system in the early 1970s. Macroeconomic instability has increased, as has economic insecurity and volatility in household incomes.

At the same time, globalisation and the free-market paradigm - symbolised by the "Washington consensus" underpinning structural adjustment - have weakened a number of macroeconomic policy instruments available to governments wanting to reduce the risk of external shocks. The increased role of international institutions and regulations such as WTO has also served to limit national autonomy in decision-making in a large number of areas.

In the dominant approach to macroeconomic policy-making during the past two decades children have been almost invisible. For reasons discussed earlier the prevailing paradigm cannot be characterised as as "pro-children" and consistent with the Convention on the Rigths of the Child.

Child-friendly macro and meso policies must therefore have a different focus than during the past two decades. While it is true that globalisation opens up a number of new trade and development opportunities for even the poorest countries in the world, and that isolation from the world market is a blind alley for rich and poor countries alike, some of the trends described earlier also represent threats, from the children´s perspective. In particular, and to summarise the earlier discussion about threats connected with globalisation and the loss of degrees of freedom in economic policy-making, we observe

* increased susceptibility to external shocks and a more insecure global economy;

* a dominance for monetary and financial targets, and priority to anti-inflationary objectives;

* a tendency to "short-termism" in economic policy-making;

* mounting pressures towards the erosion of tax revenue and a shift to less progressive tax regimes and tax bases, including the introduction of user fees in social services as a parafiscal instrument;

* an erosion of social safety nets;

* increased inequality in a majority of countries;

* a trend towards informalisation and flexibilisation of the labour market, implying a weakening of labor institutions and job security;

* a weakening of national autonomy in trade policies, where structural adjustment programmes, WTO regulations and the growth of regional preferential trade agreements have drastically reduced the possibilities to use tariffs and quotas to raise fiscal revenue or to insulate the country from external shocks originating from trade or exchange rate fluctations.

2. Pro-child Macroeconomic Policies: Policy Options and Trade-offs

Child-friendly macroeconomic policies are, by and large, policies which are good for the parents. A child is not directly affected by, say, monetary policies or trade and exchange rate policies; the impact is normally mediated through the effects on the family. Since different sets of policies have different implications for different age and income groups there is, however, a need to make even conventional macro policies less "child-blind".

The purpose of this second part of the paper is to look at economic policies through the lens of the child, and to discuss less child-blind and more child-friendly policy options. Naturally, our main concern is children in poverty.

We will begin with a discussion about inflation and unemployment; the choice between these two evils represents the classic dilemma of macroeconomic policies. After this, we turn our attention to the issue of exchange rate policies, fiscal policies, and the need for appropriate countercyclical policies and shock absorbers.

2.1 Children and Inflation

In visualising the links between inflation and children, a convenient point of departure is to look at how different age groups may be affected.

Inflation affects different countries, social sectors and age groups in quite different ways. In high and medium-income countries, with relatively well-developed financial markets, it is common for young families with children to finance purchases of new homes with the help of credit from the formal credit market. Among low-income households, especially in poor countries, money to buy or construct a new house for the family is often raised on the informal credit market - relatives, friends, local money lenders, etc. As a general rule, over the life cycle, debts are often incurred by the families when the children are small, to be repaid when the children have grown up.

For this reason moderately inflationary policies tend to have a less negative impact on young families with children, who are often indebted. An erosion of their debts through inflation may even be in their interest. On the other hand, austere monetary policies which reduce the rate of inflation while raising the real rate of interest - as is often the case when structural adjustment programmes are being implemented - tend to be particularly harmful for young parents with children, through the effects on the cost of investing in acceptable housing and sanitation standards.

Monetary policies leading to high real rates of interest can thus be labelled child-hostile, since they have a direct bearing on the affordability of acceptable dwellings.
Undeveloped financial markets, and lack of access to credit for poor families, also have a negative impact in areas related to housing and to the development of small-scale and micro-enterprises.

If there is a choice between some inflation and unemployment many young families - and especially the poor, who are rarely net creditors - would probably prefer more employment, even if this would mean a slightly higher inflation. Older people, on the

other hand, who are often less indebted, are more likely to prefer stable prices and be less interested in new jobs.

A pro-child strategy does not, however, imply imprudent policies which lead to a high rate of inflation. In particular, the effects of high inflation on the distribution of income tend to be most destructive for poorer households, as the rich have greater possibilities than the poor to diversify their assets and activities as a hedge against inflation. If high inflation is allowed to develop into hyperinflation, as witnessed in many developing countries in the 1980s, it is the poorest of the poor who suffer most.

Experience from many countries shows that irresponsible, populist policies implemented in the name of helping the poor end up playing havoc with the lives of the supposed beneficiaries.

Attempts to suppress inflation with the help of price controls and other administrative means also tend to hurt the poorest of the poor. If shortages and black markets develop as a result of inflationary macroeconomic policies and administrative controls, daily life becomes very cumbersome, especially for those who have the major responsibility for providing the family with the necessities of life, i.e., the women.

A shortage economy leads to a tremendous waste of time, energy and economic efficiency. Information and transaction costs rise. It takes time to find out where certain products are sold, and women spend hours every day just to buy food for the children. Shortage economies require not only time for queuing - which is done by poor women, including domestic servants shopping for the rich - but also more time for travel, information-gathering and bargaining. Child care suffers, as all caring activities are put under severe time pressure.

Work morale declines, and people tend to spend more time on various side activities than in their ordinary workplaces. In extreme cases of such a shortage economy - witnessed in many developing countries, including some of the former Soviet republics - teachers, medical doctors, government officials and others can be found raising pigs or selling imported cigarettes to support their families.

In such a situation, social capital rapidly deteriorates. The "speculators" are the big winners, while honest people, especially if they are poor, almost always stand to lose. Long-term, productive investment suffers. Corruption becomes widespread. Mutual trust - within civil society and between government and citizens - is dissipated.

When social cohesion is eroded, children and adolescents are the main victims.

Irresponsible macroeconomic policies and high inflation have also proved to be a certain road towards an aggravated crisis for the State. One of many early symptoms is that honest public officials find it difficult to make a living on their salaries. While there are many examples of exorbitantly generous salaries and fringe benefits in countries ruled by "predatory states", the opposite is also dangerous. In country after in country, in particular in Sub-Saharan Africa and parts of the former Soviet bloc, we can see how economic crises have eroded the quantity and quality of public services, not least in the social sectors, where the exodus of professional staff from schools,

health clinics and the public administration at large has assumed alarming proportions.

While these examples may be uncontroversial, and have only an indirect bearing on the situation of children, they may serve to indicate why responsible and predictable macroeconomic policies, accompanied by decent conditions for public sector employees, are even more important in a poverty-oriented, pro-child development strategy than in conventional macroeconomic priorities.

2.2 Children and unemployment

The impact of negative shocks on economic security of the poor was briefly discussed in part I of this paper. Suffice it here to make a few additional observations about the destructive effects of unemployment on children.

Studies from many countries document strongly negative effects on the well-being and self-esteem of children of unemployed parents, in particular in cases of long-term unemployment. It has also been found that children of non-working parents have a less successful school career than other children, and they have less chance of getting a job than children of families with at least one working parent.[21]

In very poor countries the effects can, of course, be dramatic, as the economic margins are small, or non-existent; the child´s very right to survival may be threatened by the parents´ unemployment. In addition to the severe economic loss, unemployment if often followed by family disintegration.[22]

The costs to society of family disintegration and, possibly, increased child labour, rising drop-out rates and even juvenile delinquency due to parents´ unemployment are not fully captured in conventional economic analyses. A child-friendly macroeconomic policy must take these adverse effects of unemployment into account, and pay special attention to job creation. The parents need employment - including gainful self-employment - in order to support their children, and children and adolescents need to feel that they will be welcome on the labour market and that education is a worthwile investment. If a choice can be made between moderately higher inflation and higher unemployment, the former option is likely to be less detrimental from the point of view of the best interest of the child.

2.3 Shock Avoidance and the Need for Countercyclical Policies

Given the high social and economic costs of economic crises it is important to pursue macroeconomic policies which mitigate the effects of financial volatility on the real economy, in particular in areas of high social impact such as employment, real wages, poverty and basic social services.

[21] A survey of evidence from a large number of studies concluded, among other things, that children whose families experienced unemployment have more mental health problems, are more depressed and lonely and more distrustful than other children. See McLoyd (1989).

[22] Raczynski (1987) provides an interesting analysis of the effects on family life of the severe unemployment crisis in Chile in the early 1980s.

Prevention is better than cure also in areas related to macroeconomic crises. Policies related to the external sector have, in particular, a key role to play in shock avoidance.

2.3.1 The External Account and Exchange Rate Policies

Exchange rate fluctuations have become an important source of instability in many countries. Somewhat paradoxically, however, efforts to stabilise the exchange rate can often make things worse, in a longer-term perspective; fixed or semi-fixed exchange rate policies followed by a collapse of unsustainable currency pegs have produced a number of very severe macroeconomic shocks in the last two decades. Evidence from Latin America (see Gavin & Hausmann, 1996) also shows that countries with flexible exchange rates have experienced lower volatility in the growth of GDP than countries with fixed rates.

One lesson from recent financial crises is that the combination of liberalisation of the capital account, i.e. the removal of all currency restrictions even on portfolio flows, and attempts to fix the exchange rate is a particularly dangerous policy. While every financial crisis has its own, special characteristics, most major crises in emerging economies - Chile in the early 1980s, Mexico 1994, South-East Asia 1997, Russia 1998, Brazil 1999, Turkey 2001, and a large number of minor crises - have occurred in situations characterised by attempts to combine a defense of a fixed exchange rate with currency convertilibity and free, or virtually free, capital movements.

Apart from the danger of sudden currency collapses and ensuing financial crises, an exchange rate regime based on hard pegs - including options such as currency boards and full dollarisation - also implies that shocks are transmitted to the economy via output contraction rather than through changes in relative prices and real wages.[23] With flexible exchange rates, the necessary adjustments following upon adverse events on the external account - via trade or through the capital account - tend to take place more quickly and at a lower cost in terms of foregone production and employment.

The danger with flexible exchange rates is, of course, that inflation may become higher, and that fiscal discipline may loosen (on the other hand, politicians can no longer be tempted to "buy" lower inflation with the help of hard pegs and currency overvaluation). However, and referring to our earlier discussion, unemployment is generally more child-hostile than (moderate) inflation. And inflation is likely to be less detrimental if it is stable and anticipated, compared to a situation with stable prices followed by a currency collapse and a sudden inflationary outbreak.

Overall, the negative effects of inflation on economic growth have probably been grossly exaggerated in the "Washington consensus". Joseph Stiglitz, a close observer and critic of the anti-inflationary bias characterising the consensus, made the following, rather drastic, observation in his 1998 WIDER Lecature (when he was still the chief economist of the World Bank):

[23] Lustig (1999) emphasises this point strongly.

"The evidence has shown only that high inflation is costly. Bruno and Easterly (1998) found that when countries cross the threshold of 40 per cent annual inflation, they fall into a high-inflation/low-growth trap. Below that level, however, there is little evidence that inflation is costly."

Apart from the risk of shocks, fixed exchange rate regimes which have allowed the domestic currency to become overvalued have often been responsible for large-scale unemployment. The prolonged recession, massive unemployment and growing poverty in today´s Argentina, with a currency board and a strongly overvalued currency pegged one-to-one to the USD, is illustrative of the dangers in this respect.

From the point of view of income distribution, currency overvaluation has other negative effects as it tends to favor better-off groups of the urban population, with a high propensity to consume imported commodities, at the expense of productive employment in agriculture and small-scale industry.[24]

In middle-income countries, in particular, it may be necessary to mitigate the potentially destabilising effects of private capital inflows which preceded a number of recent crises.

One example of a rather successful experience is Chile in the 1990s, which adopted a battery of different policies aimed towards the surge in capital inflows.[25] The basic objective was to make the long-term fundamentals prevail over short-term factors influencing the exchange rate. The measures adopted included, among other things, attempts by the Central Bank -such as the imposition of reserve requirements on portfolio flows and direct interventions in the foreign exchange market - to discourage short-term and speculative capital inflows while maintaining open access to the economy for FDI.
Similar, quite successful, methods have been used by several other Latin American countries.

Recent theoretical and empirical work[26] appears to lend support to the potentially stabilising effects of capital controls. For example, Easterly, Islam and Stiglitz (1999, p. 43) conclude that "countries with more open capital accounts are more likely to go into recession. Indeed, not only do large capital flows (relative to GDP) enhance the likelihood of a recession, but also capital restrictions reduce the likelihood". It can also be observed that the Asian countries which suffered least from contagion from the Asian crisis in 1997-98 - such as India, China and Vietnam - were countries which had not implemented full convertibility on the capital account.

While a majority of well-informed observers today appear to support the establishment of certain controls - perhaps of the Chilean, flexible type - on capital inflows, primarily in order to avoid a detabilising, excessive inflow of short-term

[24] There may, of course, be exceptions as regards distributional effects, such as net food-importing countries with low agricultural potential. Currency overvaluation is still a dangerous option, however, as it erodes the overall international competitiveness of the conomy.

[25] For a good overview of Latin American experience in managing capital inflows, see Agosin & Ffrench-Davis (1996).

[26] See Rodrik (1999) Kaplan & Rodrik (2001), Easterly, Islam and Stiglitz (1999) and Lustig (1999).

private capital and to lengthen the average maturity of private portfolio investment, there is much less consensus surrounding the establishment of restrictions on capital outflows. The Malaysian case, in particular, has aroused much attention and controversy. While the issues remain far from solved, there is quite convincing evidence (see Kaplan & Rodrik, 2001) that Malaysia recovered from the Asian financial crisis rather swiftly after the imposition of capital controls in September 1998, and that the Malaysian policy was more successful in restoring growth than neighbouring countries implementing more orthodox IMF programmes.

One lesson, to conclude, is that the most appropriate shock avoidance policies can, depending on circumstances, either be flexible exchange rates *or* fixed exchange rates and some form of capital controls. The extremely vulnerable combination of convertibility on the capital account and a fixed or semi-fixed exchange rate regime is, however, an open invitation to pro-cyclical currency speculators (who, if the currency is under attack, are confronted with two alternatives only: either they win, or they do not lose).

Other methods to reduce the susceptibility to external shocks may include the establishment of stabilisation funds to manage commodity price fluctuations as implemented by, among others, Chile and Colombia (the Copper Compensation Fund and the Oil Stabilisation Fund, respectively). The idea is to protect the currency reserve - and, by implication, prevent macro developments from becoming excessively pro-cyclical - and to avoid drastic exchange rate fluctuations and volatility in public expenditure and social security.

The concept of stabilisation funds is primarily designed for countries whose exports are dominated by one or two commodities. Its applicability is therefore limited, and even in countries such as Chile and Colombia the record is mixed as far as macro stabilisation is concerned. The policy advice implied by stabilisation funds - "regard every improvement in your terms of trade as transitory" - is, however, of more general relevance. The typical pattern in many developing countries (and in industrial countries as well) is that "good times" often precede the "bad times" - and are equally difficult to handle for stabilisation purposes.

2.3.2 Fiscal Policies and Ways to Finance and Close Deficits

As regards fiscal policies, fiscal targets should concentrate on longer-term sustainability criteria rather than on keeping every single year´s budget in balance.

Unfortunately, both private capital flows and government revenue tend to behave in a pro-cyclical manner.[27] Revenue, especially when based on consumption-based taxes like VAT, is virtually by definition pro-cyclical, as are almost all other sources of revenue, whether related to personal income, imports or business activity.

Most developing countries also lack the automatic stabilisers that play a certain role in reducing macroeconomic volatility in developed countries. Unemployment benefits tend to be weak or non-existent; the latter is certainly the case for a majority of poor

[27] As discussed earlier, ODA and structural adjustment lending can also exhibit a pro-cyclical pattern.

people even in middle-income countries. Social security schemes, which could serve the dual purpose of cushioning the social impact of recessions and preventing aggregate consumption from falling too drastically, are also notoriously weak.

In Latin America and several other middle-income countries, public spending on social security is heavily dominated by old age pensions.[28] This pattern implies that social spending not only fails to be countercyclical - it also fails to reach the poorest and most vuulnerable groups. Indeed, a comparatively privileged group - retired employees from the formal sector - capture most of the funds; as emphasised by Lloyd-Sherlock (20002, p. 112), social security schemes in Latin America are markedly regressive and could even be said to represent a form of "inverted targeting".

If a fiscal deficit arises - for external or internal reasons - the deficit needs to be financed and, if unsustainable, eventually reduced.

Each option to finance a "large" deficit is connected with a different kind of macroeconomic imbalance.[29] As a first approximation, printing money excessively shows up as inflation, excessive use of foreign reserves leads to a balance of payments crisis, high foreign borrowing leads to a debt crisis, and too much domestic borrowing (where such is possible) leads to high real interest rates and crowding out of private investment.

Of these different expressions of macroeconomic disequilibria financial crises - whether in the form of an acute balance of payments crisis, a prolonged debt crisis or a domestic bank crash - tend to be particularly harmful, not least from a children´s point of view. The same is true for excessive domestic borrowing and a high real rate of interest. As regards excessive printing of money and concomitant inflation, while the fear of a moderately high inflation has often been exaggerated, permitting inflation to become too high is clearly neither a sustainable nor child-friendly option.

It should also be stressed that pressure from globalisation serves to reduce the tolerance for fiscal deficits. Investor confidence is easily shaken, and the danger of destabilising capital outflows is a more binding constraint at present than twenty or thirty years ago, implying a contractionary bias in macroeconomic policy-making in the era of globalisation. Concerns about the nervous tail - the financial markets - tend to override concerns about the dog, production and employment, and make "signals" such as promises of fiscal austerity a confidence-restoring necessity.

As a "too large" deficit has to be reduced, the timing of the closure, and the trade-off between increasing government revenue or reducing expenditures, become the key issues. The standard IMF/structural adjustment emphasis is on rapid expenditure reduction, but there are other options. From the point of view of protecting the poor

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[28] For data and an interesting discussion, see Peter Lloyd-Sherlock (2000). ECLAC (2000, chapter 6) also observes the regressive character of social security in Latin America and finds that the restributional impact of basic social services, such as primary health and primary education, is distinctly better, i.e. more pro-poor.

[29] A useful summary of macroeconomic implications of different ways of financing a fiscal deficit is found in Fischer/Easterly (1990).

and avoiding a fall in output and employment, a more gradual approach, with less emphasis on expenditure reduction, might be justified.

While the nature of accompanying meso-policies and tax and expenditure patterns varies widely between different countries, the following observation from a study on the impact of fiscal stabilisation policies on the poor may indicate the differences in outcome between different policy options:

"For any given meso-choices, the poor are likely to benefit when the choices *avoid aggregate expenditure cuts and, where possible, permit expenditure increases* (Cornia and Stewart, 1990, p. 2 Emphasis in original). The authors also conclude that the most relevant macro choices are those which avoid falling per capita incomes, avoid too ambitious targets for the deficit reduction and which place more emphasis on raising revenue rather than cutting expenditure.

It should also be stressed that the proper handling of macroeconomic shocks is not a "technical" but a highly political question. It is today becoming increasingly recognised that the most successful countries in terms of economic growth - and sustained improvements in social and human development and child welfare - are those which have been able to adjust to shocks of various kinds. Dani Rodrik, in particular, has repeatedly emphasised the role of appropriate political and social institutions for crisis management, and the ability to contain distributional difficulties and conflicts, as key to success.[30]

2.4 Mitigating the Effects of Macroeconomic Shocks: Safety Nets, Shock Absorbers and Social Funds

While the principle of "prevention better than cure" is fully applicable to macroeconomic shocks crises do occur, and
there is a strong need to improve policies related to social safety nets, or "social shock-absorbers".[31]

The key objectives of poverty-focussed responses to macroeconomic crises should, in the words of Nora Lustig, "help the poor to maintain adequate consumption levels, ensure that the poor continue to have access to basic social services, prevent irreversible impacts on human capital and prevent dysfunctional behavioral effects such as engaging in criminal activities, prostitution, or the selling of body organs, or the development of abusive child labour" (Lustig 1999, p. 17).

How this should be done differs very much. It is exceedingly difficult to indicate which types of shock absorbers are most appropriate in each individual country and situation, and the poor themselves are not a homogenous group. For example, street vendors in the urban informal sector are likely to be more affected than subsistence

[30] Rodrik (1997, 1999). The case of South Korea is often mentioned as a country which has managed to handle shocks and distributional conflicts without jeopardising future growth prospects (see, for example, Irma Adelman (2001).

[3131] The expression is taken from Jan Vandemoortele (2000).

farmers by declines in aggregate demand and private consumption. The impact of cuts in health and educational expenditure can be high for the urban poor, but negligible in rural areas where there has never even been a school or a public health clinic.

Clearly, the interventions that are needed to protect the poor vary so much that generalisations become even more difficult than when macroeconomic policy-making is concerned. A few observations can however be made.

To begin with, if public expenditure has to be reduced it is imperative to protect programmes of special importance to the poor, such as basic social services, including water and sanitation. Irreversible damage can otherwise be done to children´s physical and educational development. Interventions in areas such as child nutrition, and outright food aid in severe crises, may also be crucially important.

To reduce the impact on education of macroeconomic shocks programmes which directly target children´s and adolescents´ schooling can be of great value. Examples are incentives for families in the form of scholarships[32] and the offering of free schoolmeals. Free schoolmeals - with or without means-testing - has, in particular, been successfully introduced in many countries, and such schemes have been found to reduce significantly the drop-out rate while at the same time improving the nutritional status of the beneficiaries and thereby enhance educational achievements.[33]

Effective shock absorbers also require an overall shift in social security spending from "regressive targeting" - such as an excessive favouring of old age pensions for formal sector employees - in favour of better safety nets for poor families and children. In most developing countries child-related social security schemes, such as family and child allowances, are poorly developed and account for a very small proportion of all spending on social security. Support to early childhood development also tends to be throughly neglected, although its importance, not least during crises, is widely acknowledged.[34]

As indicated earlier, a better coverage of unemployment insurance schemes would not only reduce social costs during recessions and prevent cyclical poverty from becoming entrenched, it would also act as a countercyclical instrument. At present, only a minority of developing countries possess some type of unemployment compensation system, and even in these countries, only a minor part of the labor force is eligible; rural and informal sector workers, the long-term unemployed and many others outside the formal labor market lack all forms of protection.

Public works programmes, often in the form of minor infrastructural investments such as rural roads, have played an important role in both developed and developing countries. One advantage is the flexibility of such programmes - they can rather easily be expanded or reduced for countercyclical purposes. Another advantage is the fact that they are self-targeting; wages are generally so low that only groups with the poorest prospects of finding alternative employment have incentives to join the programmes.

[32] Experience in Indonesia after the 1997 crisis is analysed in Cameron (2000).
[33] A passionate defense of school lunches is found in George McGovern (2001).
[34] The "classic" work on early childhood development is Robert Myers (1995). See also Mary Eming Young (1996).

The absence of safety nets for the poor even in succsseful middle-income countries became apparent in the wake of the Asian crisis. While traditional safety nets in the form of social insurance based on family networks had become weakened for reasons related to long-term cultural and demographic trends and urbanisation, the public support system proved highly inadequate, and evidence of increased drop-out rates, child labor and even child prostitution has been reported from the worst affected countries, not least Indonesia. The erosion of safety nets - in this case largely public safety nets - is also obvious in the transitional economies in the former Soviet bloc.

Fortunately, there is today among policy-makers and multilateral and bilateral aid donors a pronounced tendency to emphasise more strongly poverty reduction and the need for adequate saftey nets than in the 1980s and 1990s.

2.4.1 Social funds

Social funds have spread rapidly in developing countries since the well-known Emergency Social Fund was established in Bolivia in 1987, and have since then been introduced in more than 70 countries, usually with the support of external funds.

The first funds were typically designed as shock absorbers and temporary institutions to mitigate the adverse impact of structural adjustment programmes. As objectives have evolved over time, the social funds have in many countries become semi-permanent institutions to be used to create employment and to build up assets for the poor in social and physical infrastructure (rural roads, schools, dams, health clinics, etc.).

Social funds are typically set up as autonomous institutions to provide funding to local organisations (local governments, NGOs, and others). Normally, the funds are demand-driven; they do not themselves identify projects, but respond to requests generated by local communities. Ideally, this should lead to a higher level of local commitment and community participation than in projects implemented by the ordinary line ministries.

Like in most conventional public works programmes employment through the social funds is largely self-targeting.

It is difficult to generalise about experiences with social funds from 70 countries and many more projects. A few general observations, based on a large number of evaluations and studies, can however be made.[35]

One conclusion is that *ex ante* macro policies have always had a greater impact on employment, incomes and poverty than *ex post* social funds. In most cases, the number of jobs added represented less than one per cent of total employment. This was partly due to limited funding and inadequate sequencing, as social funds were generally introduced after several years of crisis and adjustment. To have a large

[35] This section is largely based on Stewart & van der Geest (1995) and Cornia (1999b).

impact on poverty reduction, the funds would not only need much larger resources, planning and targeting would also need to be improved.

While the demand-driven nature of the mini-projects that have been executed has often been of great value, the selection of projects has also been subject to pressures from local elites, including local politicians who are in need of demonstration projects.

The high dependence upon external funding has often endangered the funds´ sustainability. Programmes with higher sustainability - such as the ones implemented in Costa Rica and Maharashtra, India - have had more diversified sources of funding, including specifically allocated domestic taxes (Stewart & van der Geest, 1995). As regards replicability, Cornia (1999b) observes that while most social funds were implemented more rapidly that ordinary government programmes unit costs tended to be higher, making their replication at the national level difficult or impossible.

While there are also good examples, where social funds have been able to provide some countercyclical relief in a flexible and decentralised manner, available evidence lends support to Stewart´s and van der Geest´s rather pessimistic assessment:

"In summary, this review has shown that the 'add-on' temporary institutions, depending heavily on external funds, have been poorly targeted and have not been able to provide for effective poverty reduction during adjustment - i.e. they represent very inadequate safety nets. They seem often to constitute political panacea during unpopular adjustment programmes. Their main strength appears to have been their ability to creat useful economic and social infrastructure, on a small scale, relatively rapidly." (1995, p. 134).

2.4.2 A Note on Targeting

In key areas for human development, the coverage of public services should preferably be as non-excluding as possible. Access to primary health and education services should be regarded as general human rights. Also, the CRC explicitly acknowledges the rights of children to "the highest attainable standard of health" (Article 24) and "the right of the child to education" (Article 28). For basic child-related services of this kind, targeting should be avoided and the services provided free of charge at the primary level.

In some areas, targeting is necessary in order to reach the poorest and most vulnerable groups. Support to early childhood development for children growing up in disadvantaged circumstances is one example.

Targeting necessarily carries several kinds of costs, however. Careful selection of beneficiaries below a certain income is administratively costly and open to abuse, and may create distorted incentives. Also, the benefits may in part accrue to a big bureaucracy administering the programme.

It has often proved cumbersome for low-income families to comply with the necessary requirements, including paperwork. In Zimbabwe, to give just one example,

low-income families have to go through several separate time-consuming procedures in order to be exempted from fees for primary health and education and to be entitled to benefit from the social safety net that has been built up. As a result, only a very small minority of the families who are poor enough to be entitled to these benefits actually receive them.

It should however be stressed that the case for general rather than selective welfare schemes is much stronger when the rights of the child are involved. Healthy and well-educated children can be regarded as "public goods", with great benefits for society as a whole. Children whose mental and physical development is stunted can easily become "public bads" already as adolescents. To provide all children with subsidised access to services like health and education can also be seen as a way to enhance social cohesion and to reduce opposition from the wealthy against paying taxes.

2.5 Towards Child-friendly Macro Policies: Concluding Observations

To safeguard the best interest of the child there is, as this paper has tried to show, a need to change emphasis in macroeconomic policy-making. The forces of globalisation represent opportunities as well as threats, and while many traditional macro policy instruments have become weakened, there are still many options available. If we summarise the earlier discussion with the help of a few key words, we may conclude that child-friendly macro strategies and policies should be characterised by

* emphasis on equity, and on policies which support an inclusive, broad-based and participatory pattern of growth;
* predictability and stability;

* countercyclical economic policies, with particular emphasis on policies which reduce the risk of macreoeconomic shocks and which attempt to minimise the effects on employment and on the poor´s real incomes and access to basic social services;

* the establishment of appropriate "shock absorbers" such as - depending on circumstances - better coverage of unemployment benefits, family and child allowances, "social funds", public works programmes or explicitly child-targeted programmes like scholarships, free schoolmeals or early childhood development interventions;

* gradualism rather than shock treatment in adjustment policies;

* emphasis on human development and on the accumulation of social capital and trust, and with great attention to the needs of the reproductive and community spheres of the economy;

* emphasis on job creation, and at least a minimum of job security;

* cautious and sustainable foreign debt policies, and a strong determination to avoid the debt trap;

* a very long-term perspective.

It is important to stress that the best interest of the child should permeate macroeconomic policies in a more conventional sense - embracing fiscal policies, monetary policies, exchange rate policies, etc. - as early and as comprehensively as possible. It is not enough - although it may be appropriate - to advocate a larger share of public expenditure going to social sector development. Trade and exchange rate policies may have a larger impact on children´s development than the relative size of the budget allocated to health and education.

It is also imperative to avoid a situation in which the "hard core" of macroeconomic policies is decided in isolation from the overriding human development objectives while NGOs, UN organisations and bilateral donors are called upon to look after the humanitarian aspects, or to give relief assistance to the victims of devastating macroeconomic policies.

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