CHIP Report No 7

Linking Economic Policy to Childhood Poverty: A review of the evidence on growth, trade reform and macroeconomic policy

Hugh Waddington

CHIP
Childhood Poverty Research and Policy Centre

Preface

This paper is one of a series of working papers, reports and policy briefings on different aspects of childhood poverty published by the Childhood Poverty Research and Policy Centre (CHIP). CHIP is a collaborative research and policy initiative involving academic institutions and Save the Children in China, India, Kyrgyzstan, Mongolia and the UK. It aims to:

- deepen understanding of the main causes of childhood poverty and poverty cycles, and increase knowledge of effective strategies to tackle it in different contexts
- inform effective policy to end childhood poverty, ensuring that research findings are widely communicated to policy-makers, practitioners and advocates
- raise the profile of childhood poverty issues and increase the urgency of tackling them through anti-poverty policy and action
- work globally to tackle chronic and childhood poverty in developing and transition countries.

Financial support from the Chronic Poverty Research Centre, the UK Department for International Development - DFID - (grant no. R8005), Save the Children UK and the International Save the Children Alliance have made this publication possible and are gratefully acknowledged.

For further information and to download all our publications, visit www.childhoodpoverty.org.

Acknowledgements

Thanks to Rachel Marcus, David Woodward, Howard White and Caroline Harper who provided invaluable comments. The author is responsible for all errors.

Glossary

Balance of payments: the economy's total net foreign transactions, comprising: the current account (net trade in goods and services; official transfers, ie aid grants less interest payments on debt; and private transfers, eg remittances), and the capital account (net foreign borrowing, eg aid loans and foreign investment). Either these two accounts balance (and the balance of payments is therefore in equilibrium at zero) or the deficit (or surplus) must be met through a decrease (or increase) in foreign exchange reserves.

Capital markets: the market in which savings are converted into investment, eg via the lending activities of banks. International capital movements include (shorter-term) foreign purchases of domestic currency and other financial assets and (longer-term) foreign direct investment. Capital controls are restrictions on international capital movements (into and out of a country) imposed by governments.

Counter-cyclical: the movement of economic indicators in an opposite direction to the evolution of economy-wide (aggregate) demand, which tends to expand and contract over time. For example, it is often argued that government spending should be counter-cyclical, so that it increases to support economic activity during recession, when demand is depressed and unemployment rising, and falls during booms, when demand for employment is recovering. This must be achieved by borrowing, since government revenues are inherently pro-cyclical, ie tax receipts fall during recession.

Current account deficit: where net earnings from international trade, private transfers (eg workers' remittances) and official transfers (eg aid) are negative; that is, on a net basis, money from these sources is flowing out of the economy. This differs from the fiscal deficit, which concerns the money flowing into and out of the government budget.

Exchange rate: the price at which one currency can be exchanged for another. Broadly speaking, there are two types of exchange rate. Under fixed exchange rates, the central bank attempts to hold the exchange rate fixed by buying and selling foreign currency in the currency market. Under flexible exchange rates, the exchange rate is determined freely in the currency market.

Exchange rate devaluation/depreciation: the immediate effect of devaluation/depreciation is to increase prices of imports (since a given amount of domestic currency now buys fewer units of foreign currency) and improve competitiveness of exports (since a given amount of foreign currency now buys more domestic goods). Devaluation occurs under fixed exchange rates, where the adjustment must be carried out by the authorities. Under flexible exchange rates, the adjustment is determined by market forces, and is termed depreciation.

Fallacy of composition: the idea that decisions which are feasible strategies for individual economic advancement become less feasible when pursued simultaneously by many. In the context of international trade, the promotion of exports of a small group of primary commodities by many developing countries depressed world commodity prices, reducing the gains to each producer.

Fiscal (or public sector) deficit: where public spending exceeds revenue collection and is financed by borrowing.

Fiscal policy: decisions on government revenue raising (through taxation and non-tax revenue sources such as privatising state-owned enterprises) and government spending, determining the fiscal deficit. Fiscal expansion (or contraction) stimulates (or reduces) aggregate demand by increasing (reducing) net spending (and therefore increasing (or decreasing) the fiscal deficit).

Foreign direct investment: investment by foreigners in domestic business or property.

Indexation: the automatic adjustment of earnings (eg from wages, interest, public transfers such as pensions and unemployment benefits) in line with general prices, to maintain their real value (purchasing power).

Monetary policy: the control of the central bank over the money supply, in order to manage demand in the economy. The central bank attempts to increase (or reduce) aggregate demand through monetary expansion (or contraction). This can be done by: (1) lowering (or raising) the rate of interest charged by the central bank on short-term borrowing by commercial banks, which sets the minimum limits on interest rates subsequently charged by commercial banks to borrowers; (2) buying (or selling) securities such as government bonds and treasury bills to increase (or decrease) the money supply directly; or (3) controlling money creation of commercial banks through reserve requirements, which determine the amount of lending the banks can make given the value of deposits.

Pro-cyclical: the movement of economic indicators in the same direction as the movement in demand - the opposite of counter-cyclical.

Progressivity: generally refers to a system in which poor people get a larger share of benefits from a programme than their share of income or consumption. Progressive taxation is that which takes a greater proportion of income from richer people. In contrast, regressive taxes take a higher proportion of income from poorer people.

Purchasing power parity: equalises the cost of an identical basket of goods in two countries. Comparisons between countries based on standard currency exchange rates undervalue incomes in poor countries. Purchasing power parity exchange rates are more useful for making comparisons of living standards between countries because they account for differences in costs of living.

Tariffs and non-tariff barriers: the instruments that governments use to restrict foreign trade. Tariffs are taxes charged on imports, raising prices in the domestic economy. Non-tariff barriers are restrictions that use other means to reduce imports - eg quotas, which set limits on the number of goods that can be imported in a given time, and domestic content requirements, which determine a minimum value to be added to goods by producers operating domestically in order to be sold there.

Contents

Executive summary

Deprivation during childhood, even over relatively short periods, can have major long-term, irreversible consequences, resulting in life-course or inter-generational (ie chronic) poverty transmission. Avoiding childhood poverty and ensuring that children are protected even from temporary acute periods of deprivation should be a major focus of development policy. Despite increased emphasis on children's wellbeing in recent years (such as in the Millennium Development Goals and the Convention on the Rights of the Child), little explicit recognition is made of children in standard economic policy-making.

This paper argues that economic policies affect childhood wellbeing principally through:

- public services provision, where fiscal policy decisions determine the level and progressivity of taxation and spending, and prioritisation determines the share of spending accorded to basic services for children, such as education and health
- the household economy, since children are affected by changes in household income, assets and livelihoods and by the household's response strategies to changing economic conditions, particularly where these impact on household structure and carers' time-use.

Because issues related to public service provision have been addressed in detail elsewhere (for example in CHIP Report 9), this paper concentrates on policies that affect children principally through household economies. As few studies directly draw out implications for children, this paper draws substantially on evidence concerning the impact of different policies on poverty. It focuses on three specific areas of economic policy.

1. Growth, inequality and poverty reduction

The development orthodoxies of the 1980s and 1990s which focused on liberalising markets in order to boost economic growth can be criticised for failing to:

- achieve the higher growth rates they promised
- convert effectively what growth there has been into poverty reduction
- avoid or minimise the short- to medium-term adverse effects, which were often particularly severe for children.

Overall, the experiences of economic reform in the past two decades coincided with a deterioration in the rate of improvement of children's living standards, in particular those closely mediated through households and livelihoods, such as nutrition.

While empirical research demonstrates that incomes of poor people tend to increase during periods of economic growth, growth is not sufficient for poverty reduction and improving child wellbeing for the following reasons:

1 The extent to which growth leads to poverty reduction depends largely on inequality. Growth is a more effective poverty reduction tool in less unequal societies, whereas more unequal societies require more redistribution for growth to reduce poverty. Since different growth policies have different implications for distribution, it is those which benefit poor people the most that will have the strongest impact on poverty.

2 Aggregate poverty statistics can hide significant movements of different groups into and out of poverty. While aggregate poverty statistics may remain favourable, a narrow focus on pro-growth policies with insufficient attention to equity, may lead to the long-term deprivation of certain groups of poor people or push others into poverty, both of which can have adverse consequences for children.

3 While growth is important for sustaining improvements in human development over long periods and income does matter, other factors such as public spending priorities are crucial, particularly for childhood wellbeing.

4 Since policies currently advocated are not reducing poverty swiftly enough for the Millennium Development Goals to be met, particularly in sub-Saharan Africa and South Asia, more extensive redistribution is necessary.

5 The role of redistribution for poverty reduction is often downplayed, presumably because of fears that redistribution may harm incentives and growth. However, they are often complementary and a combination of growth-oriented and distributional measures is usually most effective for poverty reduction.

6 A genuine commitment to fast poverty reduction requires policies, such as asset transfers and credit assistance, that explicitly benefit poor people particularly in rural areas. Specific pro-child policies such as increased public spending on basic services to improve health, nutrition and educational outcomes, as well as specific policies for women, will be beneficial for growth in the long term. This requires a greater focus on redistribution for poverty reduction at both the national and international levels, given rapidly rising world inequality.

2. Trade liberalisation

International trade has the potential to generate great improvements in the wellbeing of poor people. The key issue is how to achieve these benefits.

1 Proponents of trade liberalisation often:
- draw on evidence based on cross-country studies which is both ambiguous and provides an inadequate guide to what a specific country should do, since much context-specificity is removed from these studies.
- overlook the fact that the theoretical benefits for incomes of reducing trade restrictions depend on assumptions which, when violated (as they usually are) mean that expected gains may well not be realised. Furthermore, they ignore the potential social implications. For example, international competitiveness can be achieved in ways which are detrimental to children, such as by exploiting child labour.
- ignore historical experience which suggests that nearly all successful development, including the recent experiences of East Asian 'Tiger' economies, has occurred through selective and temporary protectionism.
- dismiss the fact that simultaneous export promotion among many low-income countries depresses world commodity prices, lowers (or even reverses) growth of producer incomes, and perpetuates low-income traps.

2 Opponents of liberalisation cite the hypocrisy of the global trading system and the huge bias of existing trade rules against poor countries. However, they seldom recognise that blanket trade restrictions nearly always impose welfare costs on society - most obviously by raising prices and therefore lowering real incomes - and may stifle growth in developing countries by raising the costs of capital inputs to production.

3 Liberalisation pursued on its own and too rapidly has not benefited the poorest countries. In low-income countries, liberalisation should be preceded by public investments, especially in human capital. Failure to address this problem will leave poor countries trapped in vicious cycles of low-value primary commodity production, low human capital attainment and low growth.

For poor households to benefit from liberalisation:

1 Policies promoting investment in infrastructure are necessary to enable poor people, particularly in remote rural areas, to access markets.

2 Equally important are policies to enable poor people to increase production or shift production into other areas by promoting equitable access to production assets, such as water and irrigation

programmes, appropriate technology and credit. However, given significant public resource constraints and competing priorities in many developing countries, donor support will be important in this regard.

3 Promotion of labour-intensive manufacturing is an important secondary strategy. The major issue is in achieving industrialisation through selective and temporary import controls and export subsidies, and preventing capture by vested interests.

4 Effective institutions are necessary to manage trade - these need to be competent and independent from industry to provide effective regulatory oversight. This includes rules at international level that are fairer to poor countries.

The impact of trade liberalisation on household poverty is highly context-dependent:

1 The immediate impact is to alter prices of internationally-traded goods. In many cases, agricultural producers have benefited from agricultural trade reforms through the higher prices they have earned or through exposure to new markets. However, where prices of staple foods rise, trade reforms need to be accompanied by support for children and mothers' nutrition in urban areas (and net food purchasers in rural areas) in order to prevent worsening nutritional outcomes.

2 A second impact is on employment: long-term parental unemployment has key negative implications for children's schooling and future labour force outcomes.

3 Household responses that may be detrimental to children include male out-migration and increased female working hours, where this directly reduces childcare time. Policy-makers thus need to be aware of how economic reform impacts on social structures and traditional support mechanisms.

4 While greater openness to international trade may raise incomes, it may also increase economic insecurity by exposing poor producers to more shocks. This is particularly the case where liberalisation involves deregulation of state purchasing of agricultural products, as the ensuing instability of prices (and reduced access to inputs formerly provided by marketing boards) can cause income fluctuations which, however temporary, can lead to deprivation with potentially long-term implications for children.

5 There is some evidence that trade liberalisation has reduced fiscal revenues in low-income countries, which has adversely affected education spending.

6 An adequate system of social protection is essential before liberalisation should be undertaken, particularly to protect mothers and children nutritionally and to enable children to remain in or access education.

3. Inflation and fiscal deficits

In economies with spiralling inflation and unsustainable public sector (fiscal) deficits, macroeconomic adjustment is unavoidable and will usually be beneficial for both the economy and poor people. Sound macroeconomic policy clearly requires deficits to be well-managed and unsustainable deficits reduced to sustainable levels. Deficit sustainability is determined by the rate of growth of debt in relation to growth of total income and, therefore, the ability to repay. Where deficits support investment in physical and human capital development, thus raising growth, this should increase the sustainable level of debt, possibly by more than it increases the debt itself.

1 Conventional macroeconomic adjustment programmes, including those of the IMF, have aimed for excessively low (single digit) inflation and public deficits, and not to minimise impacts on poor people nor have a pro-poor public spending orientation.

2 Rapid stabilisation, through huge increases in interest rates and reductions in public spending, has generated severe and avoidable recessions in Latin America, East Asia, Africa, Central and Eastern Europe and Central Asia, with long-lasting economic and social consequences for poor families and children, eg by cutting public expenditure and reducing deficits too rapidly, leading to rising unemployment.

3 incomes and employment are important for poor people, macroeconomic policies should aim to minimise fluctuations and maintain full employment. However, this is not compatible with IMF programmes which target excessively low inflation and fiscal deficits.

4 During macroeconomic crises, interventions targeting children and mothers are essential to protect many from the worst effects and can be successfully administered even while overall public spending falls. However, the optimal policy to protect children and families is macroeconomic policy which reduces the instability of employment and the likelihood of a crisis.

5 Another key issue is to limit the susceptibility of countries to short-term destabilising international capital flows through international agreements on capital controls.

Conclusions

Given that many of the policies that will be most beneficial to children (such as the promotion of health and education, and the empowerment of women) will also be beneficial for the rest of society, policy-makers must put the needs of children first. In addition to pursuing pro-poor policies along the lines outlined above, this means:

1. There needs to be support for positive reforms that will improve the wellbeing of poor families directly; in particular, to assist chronically poor families in breaking poverty cycles, by enhancing human and physical assets.

2. Key public services, in particular social security programmes to protect children, will play a vital role in minimising the adverse effects of economic reform and prevent families from falling (further) into poverty. This is particularly important where household and community responses to economic reform cause indigenous social support mechanisms to break down. Such measures are unlikely to be compatible with excessively tight public budget constraints or without concerted efforts to maintain (or implement) social policies in a context of competing uses for scarce resources. The role of donors will be of particular importance in this regard.

1. Introduction

Childhood poverty, like adult poverty, is a multifaceted concept capturing material and non-material welfare, the latter including basic nutritional, educational and health-related needs and more subjective factors like security and voice. However, childhood poverty differs from adult poverty in that childhood is the most vital period in the body's mental, physical and social development. Deprivation during childhood, in terms of factors such as nutrition, healthcare, education and security, even for relatively short periods, can have major long-term, irreversible consequences, resulting in life-course or inter-generational (ie chronic) poverty transmission (Harper et al, 2003).[1] Avoiding childhood poverty and ensuring that children are protected from temporary acute periods of deprivation should therefore be a major focus of development policy (Falkingham, 1999).

Emphasis is increasingly being placed on children's rights and wellbeing, as demonstrated in the near-universally ratified Convention on the Rights of the Child as well as the strongly-supported Millennium Development Goals, three of which directly concern children and the remainder of which have explicit or implicit links to children.[2] However, despite the importance of mechanisms linking economic policy to children - particularly in terms of important implications for future successes in anti-poverty - there is little explicit recognition in standard economic policy-making of children's wellbeing as an outcome of policy, still less as an explicit policy objective (Micklewright, 2000). A closer integration of economic policy with children's wellbeing at the level of policy decisions should generate greater sensitivity to policy choices which place children at greater risk, as well as better appreciation of positive policies to improve childhood wellbeing, including fundamental social spending programmes for children.

Since the 1980s, most developing countries have undergone programmes of macroeconomic adjustment (ie tight macroeconomic policies to combat inflation and balance of payments problems) and structural adjustment (eg trade liberalisation, privatisation). The reforms advocated can be criticised for failing to achieve the higher growth rates they promised and for failing to convert effectively what growth there has been into poverty reduction. At a broad level, economic reform in the past two decades has coincided with a deterioration in the rate of improvement of children's living standards, in particular those closely mediated through households and livelihoods, such as nutrition.

---

1 Of course, children are not a homogeneous group: different age periods are important for development of different functional capacities. Also, as Yaqub (2002) notes, individual children have different 'resiliencies' to the long-term effects of deprivation; thus some are more affected than others by early childhood deprivation. An emphasis on effective anti-poverty strategy for children does not preclude targeting adults among the chronically poor, given that adults may be able to catch up on some areas of missed childhood development (eg if adult education is available), and the importance of parents'/carers' wellbeing for that of children.

2 Goals directly relating to children are: to achieve universal primary education by 2015; to eliminate gender disparity in primary and secondary education by 2015; and to reduce the 1990 under-five mortality rate by two-thirds by 2015. Others, such as the Goal to halve extreme poverty and hunger by 2015, include child wellbeing measures as official indicators, in this case the share of underweight under-fives (Black and White, 2003: Table 1.3).

Economic theory is often ambiguous regarding real-world implications. Therefore, economic policy-making should ultimately be an exercise in pragmatism, utilising relevant evidence wherever possible, and seeking to optimise welfare, rather than treating welfare as a by-product of growth. It should also recognise and use individual countries' specific circumstances and developmental needs to inform decisions. A more balanced approach to short- and longer-term consequences of economic reform is essential, particularly with respect to children's wellbeing. With this in mind, this paper attempts to provide a non-technical review of evidence of the impact of key macroeconomic and structural policies on poverty reduction in general and on children in particular. The ultimate objective, where possible, is to draw conclusions concerning policies which are generally likely to be positive or negative for reducing childhood poverty.

The next section informs the discussion by presenting an overview of data issues and the conceptual framework that is used to link childhood wellbeing with economic policy. Section 3 discusses evidence relating three major areas of current economic policy orthodoxy to children: the interrelation between economic growth and poverty reduction, with specific attention to inequality and policies for pro-poor growth; trade policy and trade liberalisation; and macroeconomic issues relating to inflation and fiscal deficits. Section 4 concludes the paper.

2. Measuring childhood poverty and conceptual framework

The term 'childhood poverty' encapsulates the various forms of material and non-material deprivation experienced by many children and young people in the world. These experiences may include: having inadequate livelihoods to meet financial and nutritional needs; lacking opportunities for human development through, for example, education, healthcare, clean water and sanitation; lacking family and community structures that nurture and protect; and being powerless and lacking political voice (CHIP, 2003).

Different people in different places and at different times have different needs and so experience different aspects of poverty and deprivation; anti-poverty policy should therefore follow a multi-pronged strategy. Differences between income and non-income dimensions are particularly highlighted. For example, a family's[3] income may be above the poverty line but, because of poor public service provision, its children are unable to satisfy basic educational needs and are therefore considered poor. Income changes can underestimate welfare impacts because coping strategies in response to adverse economic shocks often entail non-financial costs to limit income effects. For example, in the face of an initial loss of income, families may maintain income levels by withdrawing children from school and/or engaging children in the labour force.

In addition, children of different ages and gender have different needs, so different indicators of childhood poverty are needed for different groups. For example, malnutrition is particularly detrimental during the pre-natal period, as well as for young children (aged up to about three years). 'Short-term' economic shocks which adversely affect the nutrition of young children have been associated with higher mortality rates and lower lifetime earnings in Africa, by increasing risks of permanent growth stunting and lowering educational attainment and cognitive ability, and therefore increasing chances of life-course and inter-generational poverty transmission (Carter and Maluccio, 2003; Dercon and Hoddinott, 2003). As children get older, schooling becomes more important; achieving basic education and literacy are usually seen as crucial determinants of earnings over the lifetime, as well as the health and wellbeing of the next generation. For teenagers, economic changes leading to lower participation in education, labour market and civil society may result in feelings of social exclusion and anti-social behaviour (Falkingham, 1999).

Childhood poverty should therefore be measured using, where possible, information on a broad range of factors including narrow income-poverty, health, education, carers' time use, the

---

3 Household and family are used inter-changeably in this paper, although many households in developing countries comprise both kin and non-kin members, as well as multiple families.

physical and social environment, as well as measures of vulnerability and subjective information gathered using participatory techniques. Time poverty is very important with regard to children. Where parents work longer hours, and alternative sources of good quality care are unavailable, children may experience adverse effects in terms of nutrition, learning outcomes, security and, more generally, adult attention.

Children's participation in the labour force is another important indicator of wellbeing, although data on child labour need to be interpreted with caution. Where children have to work in order that they or their families can meet basic needs, child labour may be necessary in certain circumstances. On the other hand, where young children are enticed out of school into the labour market due to an increased demand for their labour (ie not because of need), child labour will be unambiguously harmful for their long-term development. Child labour may also be poorly related to income poverty. For example, female children of land-rich households in Ghana and Pakistan were found to be more likely to work and less likely to attend school than children in land-poor households (Bhalotra and Heady, 2003).

There are, however, some important issues relating to data on child wellbeing and poverty, more generally, which complicate this analysis.

- Estimates of individual income and consumption poverty are indirect: income and consumption data are collected at the household level and assumptions are made about (a) intra-household distribution (usually based on pre-determined adult equivalence scales, which assign shares of household resources to different age and gender groups according to their perceived needs) and (b) economies of scale (costs of consuming household public goods like heating may not rise when another person is added), which are then applied evenly across all households.[4] While it is not practically possible to measure precisely individual income levels if there is joint household production or consumption - since many items, including the main consumption goods (food) are purchased for all household members at one time - efforts can be made to produce more reasonable estimates of child consumption levels. Evidence suggests that intra-household resource allocations are not constant across households. For example, White and Masset (2002) determine intra-household shares of consumption more accurately and show that children's shares do indeed vary between households.

4 It is usually argued that aggregate poverty incidence figures are likely to underestimate relative incidence among children, because poor people tend to have more children and analyses of income poverty usually find that poverty is higher among large households. However, this may purely be a by-product of standard estimation methodology, because economies of scale in household consumption of public goods are not usually accounted for. White and Masset (2003) argue for Vietnam that standard estimation procedures actually overstate childhood poverty, but also understate poverty among female-headed households and ethnic minorities.

- In addition to problems of measuring intra-household differences, some authors also express reservations about using standard income or expenditure poverty lines at all to measure poverty among children.[5] For example, Gordon et al (2003) argue that extreme poverty lines which are set at the level of expenditure necessary to achieve minimum nutritional standards, are particularly unsuitable for young children who have relatively small food requirements but large non-food requirements. Instead, they argue for a multi-dimensional basic needs approach to measuring childhood poverty (see Box 1).

- Although information on children such as mortality rates, nutritional status and educational attainment are more reliable than income poverty for assessing children's welfare directly, problems remain (Norton et al, 2000). Data are often unavailable at sufficiently disaggregated levels to infer accurately determinants of child wellbeing such as socio-cultural identity (eg ethnicity and caste), which are important to combat social exclusion. Data on aspects of children's wellbeing such as power, security and quality of social relations are often unavailable; aspects which children themselves often consider the most important (O'Malley, 2004).

- In relation to all the types of data discussed so far, some of the most vulnerable children (eg street children, orphans) live outside households and are therefore not included in any data sets. While these represent a relatively small number of total children in many countries, some groups (such as children affected by HIV, including orphans) are growing very rapidly and represent substantial numbers in the worst affected countries in Southern Africa.

---

5 The utility of the international purchasing power parity dollar-a-day poverty line in measuring poverty across countries and across time has also been questioned - partly due to methodological problems in generating purchasing power parity exchange rates that adequately account for the types of commodities consumed by poor people (Reddy and Pogge, 2002). The dollar-a-day line is essentially arbitrary: it was estimated based on an average of ten national poverty lines in low-income countries, rather than corresponding to the resources required to meet clearly defined minimum needs (as a poverty line should). In comparison with national poverty lines, the dollar-a-day line overestimates income poverty in poorer countries, and underestimates it in richer countries. These seem to cancel each other out at a global level, but, when China and India are excluded, result in an underestimation of poverty in the rest of the developing world (Minujin et al, 2002). One could propose an alternative approach, eg the income corresponding with a set level of child mortality (based on the statistical relationship between the two), or a broader set of (child) welfare indicators, such as those in Box 1 (although the latter would be more complex). This would be a halfway house between the two approaches, making the link with economic policy clearer, while also making more explicit what is 'acceptable'. At any plausible level of child mortality, this would almost certainly be above the dollar-a-day line (Woodward, 2004).

Box 1. New estimates of global childhood poverty

Gordon et al (2003), in a study commissioned by UNICEF, have developed a multi-dimensional basic needs indicator of childhood absolute poverty and applied this to representative survey data to produce estimates of global childhood poverty. The authors argue the basic needs approach to be superior to one based on income measurement, given inter alia problems in determining a suitable poverty line for children.

Basic needs are defined for food, safe drinking water, sanitation facilities, health, shelter, education, and information, corresponding theoretically to 'circumstances that are highly likely to have serious adverse consequences for the health, wellbeing and development of children.' (ibid: 7). Children not meeting any one of these basic needs are therefore defined as 'severely deprived'. 'Absolute poverty' here relates to deprivation based on two or more of these types of human need. This reduces potential over-counting, since certain types of deprivation can also arise from discrimination, which is not necessarily the same thing as, although is often correlated with, poverty.

The results indicate that almost 40 per cent of the world's children (roughly equal to their total world population share, although not regional shares of population) live in absolute poverty, mainly in sub-Saharan Africa and South Asia. Poverty in rural areas (in terms of incidence, as indicated in the table below, as well as total numbers) vastly exceeds urban poverty in all regions. In terms of individual measures of deprivation, the results show that 56 per cent of children (over one billion) are severely deprived of at least one basic need, with sub-Saharan Africa and South Asia having rates exceeding 80 per cent and rural deprivation substantially exceeding urban deprivation.

Region	Total poverty incidence (%)	Number (000s)	Rural incidence (%)	Urban incidence (%)
Latin America and Caribbean	17	33,085	41	6
South Asia	59	329,613	70	22
Middle East and North Africa	40	61,153	57	9
Sub-Saharan Africa	65	206,927	78	25
East Asia and Pacific	7	43,471	9	3
Developing World	**37**	**674,249**	**48**	**12**

The report highlights that experiences of poverty and deprivation, measured using these categories and definitions, are different across the world. There can therefore be no anti-poverty policy blueprint for children. The report emphasises that the issues in most need of attention now are: deprivation of water (20 per cent of children in the developing world 'are using unsafe (open) water sources or have more than 15-minute walk to water');

Box 1 - *continued*

information (25 per cent 'lack access to radio, television, telephone or newspapers at home'); shelter (34 per cent 'live in dwellings with more than five people per room or which have mud flooring'); and sanitation (31 per cent 'have no toilet facilities whatsoever'). Together, inadequate shelter and sanitation affect the greatest numbers of children throughout the world and are therefore the main symptoms of absolute poverty as defined here.

However, the measures of deprivation are more severe than those normally used in poverty analysis (eg in the Millennium Development Goals) and therefore provide minimum estimates of child deprivation. Some measures can particularly be criticised in this respect, and may be driving some of the report's conclusions. For example, the definition of education deprivation ('children aged between 7 and 18 who had never been to school') excludes all those who had attended school but had subsequently dropped out before a discernible impact on capabilities was attained - arguably a better measure would factor in attainment, eg grade completion. There are also some crucial areas of child wellbeing that the report does not discuss, notably voice and power. Including these dimensions would require representative data comparable over large scales. These do not exist and it remains unclear whether s ubjective indicators can be made comparable to the extent required.

Qualitative data are another source which can provide essential insights into children's living conditions. Economists often dismiss qualitative data because the data are more subjective and sampling may be less meticulous than that used for quantitative surveys. They thus perceive analyses based on such data to be less rigorous than those based on quantitative data. Certainly, qualitative data are less suited for analysis in some instances (eg in generating internationally comparable measures of subjective dimensions of poverty, like security and social exclusion). However, there is often a wealth of qualitative evidence that can be used to enrich quantitative analysis. For example, qualitative evidence documenting maltreatment of poor relatives in some African households and debt bondage practices (where a household member, often a female child, is exchanged for credit), common in parts of West Africa, should be factored into economic models of household behaviour, to produce more realistic poverty estimates grounded in specific social contexts (White, 2002). In other cases, qualitative data have provided valuable insights into the conditions of people that quantitative data analysis has missed entirely. For example, in Zambia, despite quantitative statistics indicating persistent falls in poverty throughout the period of liberalisation in the 1990s, evidence from participatory research indicated growing economic insecurity among many poor households (Oxfam/IDS, 1999 cited in McCulloch et al, 2001).

The analysis of links between economic policy and children is complicated by two further problems, one relating to the nature of the existing literature on childhood poverty and another relating to conceptual issues. First, while there is a wealth of causal analyses examining aspects of children's living conditions - such as nutrition, mortality, educational enrolment and attainment, and child labour - most studies relate to shocks operating within households and communities rather than at an economy-wide level. It is difficult to make inferences about the impact of economic reform policies from such studies, particularly as the policy solutions may be very different. For example, household-level ('idiosyncratic') economic shocks brought about, for instance, by illness or death may be mitigated through informal co-insurance, but these mechanisms will break down under aggregate ('covariant') shocks. Second, since policies have often been implemented together, and during times of economic crisis, it is difficult to determine the separate effects of the different policies, as well as to distinguish the impacts of reform from the crisis that preceded them. For these reasons, convincingly documenting macro-micro linkages has remained one of the more challenging areas of empirical research.

Methodology

The introduction to this paper articulated a distinction between childhood and adult experiences of poverty, thereby implying that specific programmes for children are needed. However, outside of the primary importance of parental care, children's wellbeing (particularly poverty-related aspects) is largely determined by general economic policy and anti-poverty strategy, as well as by external shocks and the international economic system and their interactions with policy. Children, as household members, share (to a greater or lesser extent) in the household's economic fortunes and mishaps. Also, as the largest group of users of public health and education services, children are directly affected by public spending decisions. Particular attention is given in this paper to the mechanisms through which economic policy is transmitted to children through its effects on livelihoods, including how households and individuals adapt to new economic conditions. The ways in which economic policy impacts on children through these routes is much less discussed than the relationships between economic policy and child wellbeing through public services. This paper refers to some of the issues relating to public services provision but, for brevity, omits others.[6]

The empirical evidence reviewed in this paper examines welfare implications of economic policy at a variety of levels and through a variety of direct and indirect routes. Economic policy aims to promote welfare by raising incomes. However, the extent to which living standards of poor people improve will depend on the specific policies implemented; there are other aspects of wellbeing - those particularly important for children include education and carers' time - that a focus on income growth alone ignores or may even conflict with. It is therefore necessary to go beyond the simple analysis of growth and poverty to examine the specific channels linking macro-level changes to micro-level outcomes.

6 See CHIP Report 9.

Figure 1 presents a diagrammatic framework linking economic policy to child wellbeing outcomes in terms of factors such as nutrition, health (mortality and morbidity), literacy, security (economic, physical and emotional) and leisure.[7] Economic policy affects children through its interactions with proximate causes of child wellbeing, such as food availability, maternal education and access to basic services such as water, sanitation, health and education (UNICEF, 1990).

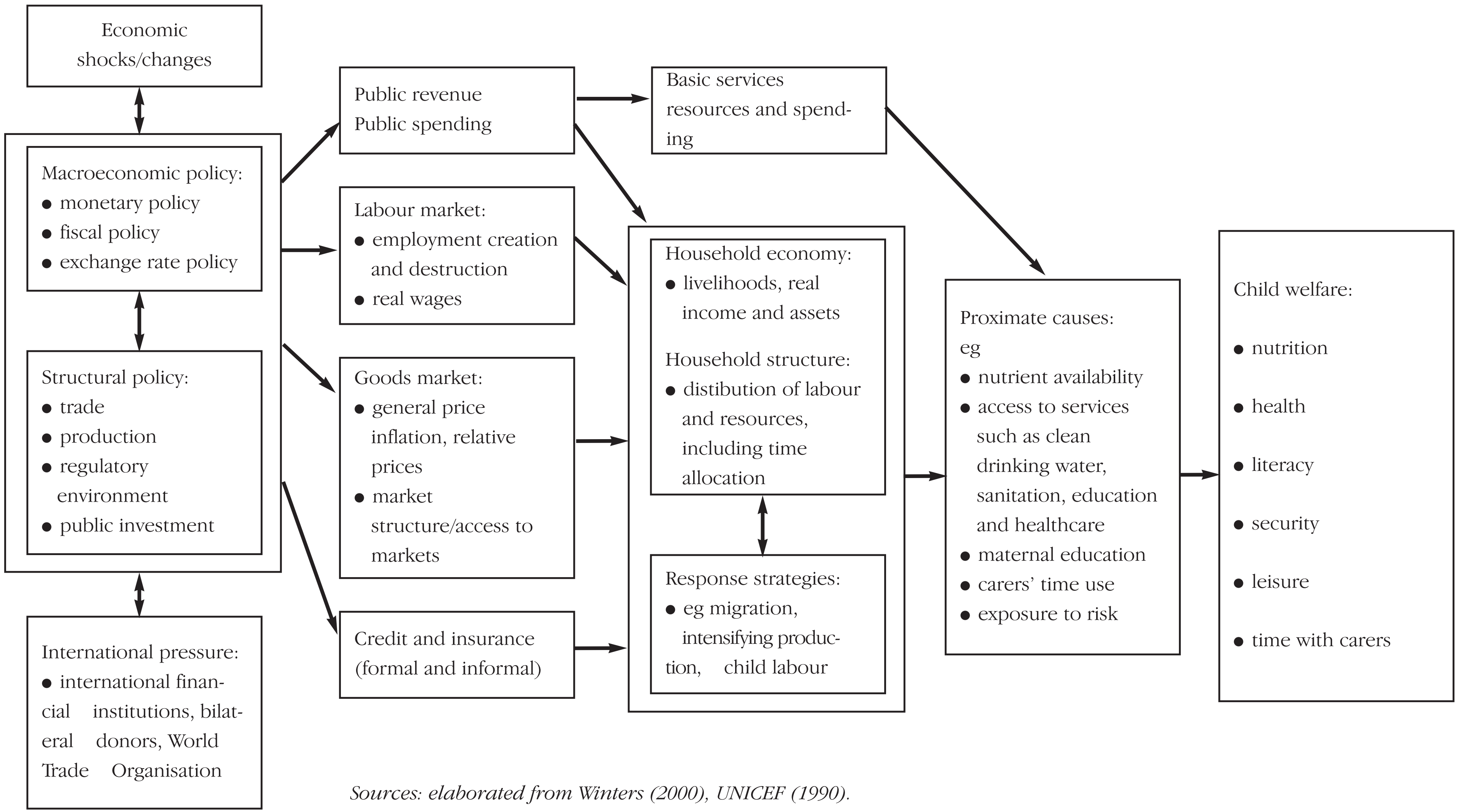
It is useful to distinguish two routes through which economic policy affects children (although it should be borne in mind that most child wellbeing outcomes are dependent on both).
One route is through public services, where fiscal policy decisions determine the level and progressivity[8] of taxation and spending; prioritisation determines the share of spending accorded to basic services for children; and use of services is determined at the household-level by factors such as maternal education (eg determining immunisation). The other route operates through the household economy: children are affected by changes in household income, assets and livelihoods and by the household's response strategies to the new economic conditions, where these impact on nutrient availability, family structure, carers' and children's time use, living environments, working conditions, etc. Of particular importance is distribution within the household, since this determines the share allocated to women and children.

---

7 Figure 1 is simplified for clarity. Most arrows should ideally point in both directions, due to effects operating from changes at child and household level through markets and public revenue, and on to policy. Proximate causes of child wellbeing differ by welfare outcome. Effects of lags in benefits of policy variables are not presented - eg educating girls will impact on the health status of the next generation of children.

8 Public spending is progressive where the share of spending received by the poor exceeds their current income share. Taxation is progressive where it takes a higher share of income from higher income groups.

Figure 1. Linking economic policy to children



Sources: elaborated from Winters (2000), UNICEF (1990).

Economic policy affects the household principally through the markets for goods and labour (determining prices, wages and employment) and credit and insurance. For example, macroeconomic policy affects inflation (eg through monetary and fiscal policies) as well as relative prices (eg through exchange rate policy, subsidies and taxation). Structural changes such as trade liberalisation also alter the prices of different goods which the household consumes and produces. However, the extent to which price changes are transferred to households depends on the competitive structure of goods markets - where markets are uncompetitive, it is less likely that beneficial changes will be passed on - as well as whether the household has access to markets at all (eg remote households may have limited or no market access). Finally, economic policy can be an important determinant of aggregate employment and access to credit. Macroeconomic policy determines real interest rates (setting minimum costs of borrowing) and spending on public sector employment programmes. Macroeconomic and structural reforms can have large negative impacts on employment in the short and medium term.

The close relationship between household structure and household economy is an important area of analysis. For example, where male family members respond to new economic circumstances by migrating in search of work, women and children left behind may be at greater risk of falling into poverty, particularly where men are unable to secure work or send regular remittances, or where men do not return to the household.[9] A substantial literature documenting the feminisation of poverty suggests that, in many contexts, female-headed households are more likely to suffer poverty and their children less likely to attend school and more likely to work. This has important implications for chronic poverty transmission, although the opportunities open to women in a particular society are also critical in determining whether or not children are disadvantaged (Harper et al, 2003).

The conceptual framework is not intended to suggest that child wellbeing depends solely on economic factors: social, biological and environmental factors will often be as, or even more, important. In addition, economic policy can have important implications for families through its effects on other factors. For example, unpopular reforms, or failure to tackle social inequalities, can generate tension and conflict, which are particularly distressing for children.

Finally, it is important to recognise that children's social, cultural and demographic characteristics will determine their needs and therefore how they are affected by economic policy. Aside from age differences, discussed above, there may also be gender differentials which usually operate to disadvantage girls, although not always. For example, in contrast to conventional wisdom, many studies of nutrition among infants are finding either no gender difference or that boys are more likely to be malnourished, even once other biological, economic and social factors are controlled for.[10] Similar results have been found for mortality (eg Howlader and Bhuiyan (1999)

9 Migration of the whole household can have substantial adverse effects too, for example, interrupting education, language change and social dislocation, although it can equally enhance children's educational and other opportunities.

10 Madise et al (1999) and Stifel et al (1999) provide evidence from sub-Saharan Africa.

and Kishor and Parasuraman (1998) for South Asia), although for children aged over 12 months, girls' mortality tends to exceed boys'. In pastoralist societies in Central Asia and Mongolia, boys' rates of access to education are lower than that of girls' (Government of Mongolia/UNDP, 2000). In addition, children's specific cultural characteristics, especially ethnicity and caste, will also be important determinants of how economic policy affects them, if these result in social exclusion.

3 Economic policy and childhood wellbeing: the evidence

During the 1980s and 1990s, development support lending focused on liberalising markets in order to boost economic growth. This often entailed the promotion of tight macroeconomic policies to combat immediate inflation, public debt and external (balance of payments) imbalances, as well as structural reforms (eg liberalisation of internal and external trade, privatisation) aimed at improving efficiency and growth and at preventing macroeconomic imbalances from recurring. Proponents of these policies often justify them by arguing that they have supported dramatic global income growth since their introduction. However, this is incorrect. The annual rate of global growth fell by more than two-thirds between the periods 1960-80 and 1990-98 - from 2.6 per cent to 0.8 per cent (Cornia, 2001) - and has generally been slower in poorer countries than richer ones in recent decades. Growth of median incomes[11] in developing countries slowed from 2.5 per cent in the 1960s and 1970s to zero between 1980 and 1998 (Easterly, 2001). Coupled with a reversal in the earlier trend towards more equal distribution of income within countries, this has seriously impeded progress in reducing poverty and improving childhood wellbeing.

Changes in measures of childhood deprivation and wellbeing over time are presented by region in Table 1. While the indicators have generally improved, overall progress since the 1980s was slower than in earlier decades. This slowdown is evident across most developing regions, with the exception of South Asia - although this region's children are among the most disadvantaged in the world in terms of mortality, primary school enrolment and malnutrition, indicated by the proportion of stunted under-fives which, estimated at 45 per cent, is the worst of all regions (UNICEF, 2003). In sub-Saharan Africa, primary school enrolment and malnutrition rates actually deteriorated.[12] Data limitations restrict analysis of changes in child wellbeing over time in Eastern Europe and Central Asia, particularly in malnutrition rates, but it is likely that these have worsened substantially given that income poverty more than trebled in this region during the 1990s.[13] Furthermore, wellbeing on various other measures, such as educational enrolment especially at secondary level, have also deteriorated in Central Asia (Yarkova et al, 2004).

---

11 The median income (ie the income of the person in the middle of the distribution when people are ranked by income level) is a better reflection of average incomes than the arithmetic mean (ie income per capita) where the distribution of income is unequal, as it is in all countries and particularly severely so in developing countries.

12 This corresponds to the virtual standstill in the reduction of income poverty incidence and the increase in total numbers living in poverty by 50 million during the 1990s (World Bank, 2000: 23).

13 For example, prevalence of long-term malnutrition (stunting) rose in Tajikistan from about 40 per cent to 43 per cent between 1996 and 1998 (Falkingham, 1999).

Table 1: Annual rates of growth in childhood wellbeing indicators (%)

Region	Under-5 mortality rate		Gross primary enrolment rate		Malnutrition prevalence rate (share of underweight under-5s)		
	1960-80	1980-99	1960-80	1980-95	1970-80	1980-90	1990-95
Europe and Central Asia	–	-2.8	–	0.0	–	–	–
East Asia and Pacific	-4.3	-3.2	0.5	0.3	-2.7*	-2.4*	-0.5*
Latin America and Caribbean	-3.2	-3.8	0.8	0.5	-5.3	-0.7	-3.6
Middle East and North Africa	-2.9	-4.6	2.4	0.7	-1.8	-2.6^	-0.0^
South Asia	-1.4	-3.1	1.6	1.8	-1.3	-1.8	-1.6
Sub-Saharan Africa	-1.5	-0.6	3.7	-0.2	-1.9	-0.0	1.7
All regions	-2.3	-2.3	1.0	0.6	-2.1	-1.6	-0.8

*Notes: * East Asia, ^ 1985 and 1985-95.*
Source: Cornia and Menchini (2002)

In this paper, we are concerned with relating such trends in childhood wellbeing to economic policy and economic performance. In general, although progress in health and education decelerated in most regions in recent decades, the slowdown appears more acute in aspects more closely related to household incomes and livelihoods, such as malnutrition (Cornia, 2002).

Liberal economic reforms are not solely to blame for limited poverty reduction; debt, falling commodity prices and increasing instances of financial crisis have all contributed - although they are also closely linked to liberal reforms. In Africa, civil conflict and the impact of HIV/AIDS have been among the greatest developmental challenges. Liberal reforms are also not solely responsible for good economic performance and poverty reduction where these have occurred. For example, in addition to gradual and selective liberalisation (see Box 5), East Asian economies have pursued strongly inclusive human development programmes and initial equitable land reform - policies which arguably contributed to improvements both in productivity and the rate at which growth increases the incomes of poor people (Watkins, 1998).

In many cases, macroeconomic adjustment was necessitated by unsustainable macroeconomic imbalances and economic collapse. Structural reforms (eg trade liberalisation) have also been implemented in most developing countries, although in most cases they have failed spectacularly to induce long-term recovery. Reform programmes have aimed to bring about macroeconomic adjustment over short periods using excessively harsh methods, often at the same time as structural reforms such as trade liberalisation (with important areas of conflict between the two), resulting in severe economic recession and large increases in unemployment. In addition, similar reform strategies have been carried out simultaneously on a global scale, depressing commodity prices and therefore growth rates of many low-income exporters. Many countries have been left severely indebted after experiencing years of economic stagnation or decline, in particular in sub-Saharan Africa and the former Soviet Union,[14] and with worsening socio-economic indicators, there are harsh consequences for children.

In recent years, there has been some recognition of these failures by the international community. It is for these reasons that poverty reduction has been prioritised by the international lending community, as demonstrated by the Millennium Development Goals - which have been endorsed as the guiding principal for aid by the Organisation for Economic Co-operation and Development donors and G-7 finance ministers, as well as receiving policy commitment by developing countries - and the Poverty Reduction Strategy Paper initiative, originally linked to Heavily Indebted Poor Country debt relief and now a prerequisite for all World Bank concessional lending. A recent review of Poverty Reduction Strategy Papers, however, concluded that they say very little about childhood wellbeing specifically, as well as retaining much of the earlier ideological bias, by giving absolute priority to growth promotion and insufficient weight to equity issues (Marcus et al, 2002).

3.1 Growth, inequality and poverty reduction

Standard pro-growth policies, such as maintaining low inflation rates and promoting openness to international trade, are not pro-poor. The speed at which growth policies have improved the income and non-income dimensions of wellbeing of poor people varies greatly across countries and, within countries, across regions and sectors. In other words, whether and how many people are lifted out of poverty by growth depends on how the extra income that is generated is distributed. Where inequality is initially high or rising, a given amount of growth will be converted into less poverty reduction.

Growth is not only insufficient for rapid poverty reduction, but achieving it may reduce some elements of non-income welfare, notably time available for leisure and childcare. For example, a strategy for increasing income growth in the short term may be to send children to work (and remove them from school). However, this will have costs for growth in the longer term, as well as harming multi-dimensional poverty reduction.

14 Arguments that deterioration in growth and poverty in former Eastern bloc countries was inevitable, given the huge adjustments being made in the transition from a centrally-planned to market-oriented economy, are fallacious. Experience from other reforming centrally-planned economies like China and Vietnam, both of which have experienced rapid growth and poverty reduction during liberalisation, demonstrates the virtues of a domestically-driven reform programme that pays particular attention to a country’s institutional capacity and needs and enables a more gradual and selective liberalisation (Griffin, 2000).

A genuine commitment to rapid poverty reduction requires policies which are explicitly beneficial to poor people, in particular to promote development in rural areas, where 70 per cent of the world's poorest people live, through asset transfers and credit assistance. Pro-child policies such as increased public spending on basic services to improve health, nutrition and educational outcomes, as well as specific policies for women, should also be beneficial for long-term growth. However, this means a much greater focus than is presently the case, on redistribution for poverty reduction at national and international levels, given the rapidly rising global inequality (White, 2001).

Why growth is important for poverty reduction

Economic growth reduces income poverty directly where it is driven by advances in poor people's own production and investment and (as is more commonly perceived) less directly by increasing demand for goods and services produced by poor people, and by increasing demand for production resources (eg unskilled labour) owned by poor people (Danielson, 2001). Growth should also promote non-income poverty reduction by increasing tax revenues and funds available for public services, as well as enabling poor people, at higher personal income levels, to satisfy more basic needs. In turn, human development enhances growth by raising worker productivity. Periods of growth contraction (recession) are usually accompanied by rising poverty, as recently evidenced most notably in the former Soviet Union and parts of sub-Saharan Africa.

In sum, economic growth is an important component of poverty reduction strategies: without growth it is difficult and usually impossible to sustain improvements in income and non-income dimensions of poverty.[15] However, this is strictly true only over very long periods, and it does not imply that growth maximisation will maximise poverty reduction. Furthermore, there is much debate about how best to achieve poverty reduction through growth.

Empirical research demonstrates that incomes of the poor, as a group, tend to increase during periods of economic growth.[16] There is a wealth of recent cross-country studies, many originating from the World Bank's research department, showing that growth in per capita income and the dollar-a-day poverty incidence are strongly negatively correlated across countries (Ravallion, 2000; Adams, 2002).[17] These studies suggest that each successive one per cent increase in a country's average income growth would reduce its headcount dollar-a-day poverty incidence by

---

15 For example, holding total income constant (ie with zero growth), reductions in income poverty must come about through progressive redistribution, which (at sufficiently high levels of redistribution and/or sufficiently low levels of pre-tax income inequality) may be bad for future growth rates and, therefore, for poverty reduction in the long term. However, the theory and evidence concerning the impact of inequality and redistribution on growth is controversial (see Box 2).

16 There are few cases where growth has been associated with rising poverty incidence. Notable examples where poverty incidence has remained virtually constant despite overall per capita growth include Burkina Faso and Tanzania in the 1990s.

17 Cross-country studies analyse data from a cross-section of countries over a relatively limited period, often to approximate relationships which, in economic theory, are long-term in nature, but for which long enough time-series data are unavailable. However, drawing longitudinal conclusions from cross-sectional data is highly questionable.

2.5 per cent on average.[18] Of course, it is relatively easy to reduce income poverty simply by moving the least poor up over the poverty line (and leaving the extreme poor where they are), and the headcount poverty incidence would not pick this up. However, research has also shown that, on average, growth generates improvements in indicators of poverty sensitive to incomes below the poverty line, which suggests that the poorest people have also shared in the benefits of growth (Adams, 2002).

Although the results suggest that there are important links between poverty reduction and economic growth, they can be criticised for at least four reasons. First, they do not provide useful policy guidance: they can be interpreted as either growth rates, explaining a large part of the variation in rates of poverty reduction around the world, or as poverty reduction being more effective in generating growth than non-poverty oriented growth-promotion.[19] Poor people are commonly considered passive beneficiaries of economic change who benefit from growth in the economy where it stimulates employment and demand for their products: this is what is commonly referred to as 'trickle-down'. Yet growth will translate into poverty reduction fastest where it is driven by advances in poor people's own production. To paraphrase Watkins (1998) 'it is not just the size of the national income cake and the distribution determining how that cake is shared, but also who bakes the cake that matters for growth to be pro-poor'.

The empirical estimates of Ravallion (2000) and Adams (2002), among others, are based on the assumption of distribution-neutral growth - that is, that growth, on average, is not associated with changes in the distribution of income and, therefore, that growth translates into poverty reduction at the same rate across countries and time. However, growth is not distribution-neutral: different growth policies will have different implications for the distribution of income and, therefore, the rate at which growth reduces poverty. The substantial variation around the averages in empirical results indicates that individual regions and countries convert growth into poverty reduction at greatly different rates due to differences (and, to a lesser extent, changes over time) in the distribution of income (Ravallion, 2000). To be serious about poverty reduction, the aim of policy should not be to increase growth - assuming that poor people will benefit proportionally because of the assumption that growth and distribution are independent - but rather to increase the incomes of poor people. This will result in economic growth as (hopefully) the by-product of poverty reduction, rather than the other way round - that is, to move away from what essentially remains a variant on the 'trickle-down' model to a 'trickle-up' approach (Woodward, 2004).

---

18 The headcount poverty incidence is the percentage of the national population falling below the poverty line. Measures of poverty which are more sensitive to incomes below the poverty line include 'depth' and 'severity' which quantify, respectively, the average income gap from the poverty line and inequality among people below the poverty line.

19 In fact, all that they demonstrate is that income distributions do not vary systematically with growth, ie that inequality on average remains constant given growth. Deininger and Squire (1998) provide cross-country empirical support for this. However, the results do not indicate that growth does not affect distribution, only that it does not do so uniformly - ie in roughly half the cases, growth was associated with rising inequality, while inequality fell in the other half.

Second, aggregate poverty statistics can hide significant movements of different groups into and out of poverty, as well as more marginalised groups' experiences of long-term poverty because, for example, of country-specific gender and ethnic inequalities. Even where overall poverty statistics indicate favourable trends, such dynamics clearly matter for those families losing out, as well as for their children's long-term potential. Panel surveys - in which the same households are repeatedly sampled over time - enable poverty dynamics to be analysed. For example, following the financial crisis in Russia, poverty incidence rose by two percentage points, yet underlying this overall trend, 18 per cent of the population had fallen into poverty, while a further 16 per cent escaped poverty during the same period (Lokshin and Ravallion, 2000 cited in Ravallion, 2000).

Panel data from China, Ethiopia, Pakistan and South Africa suggest that, rather than incomes gradually rising with growth, most poor households experience movements into and out of poverty over time - ie they are vulnerable to transitory poverty (Baulch and Hoddinott, 2000). This is mainly because households have insufficient asset holdings and are unable to support consumption when income falls, eg because of seasonal changes or household shocks such as illness. Informal social insurance is often important in mitigating the effects of such shocks, thus the impact of economic reforms on such arrangements is very important. In India, for example, there is evidence from village studies that in some cases traditional institutions, such as permanent labour contracts, have deteriorated with economic development (in this case due to increased short-term migration) leading to increased insecurity, and it is unclear whether the general increase in incomes has compensated for this (Jayaraman and Lanjouw, 1999). Another finding from panel studies is that households with high fertility rates and high dependency ratios, and those where the main breadwinner lacks formal education, consistently seem less able to gain from change and escape from chronic poverty (Baulch and Hoddinott, 2000).[20] Those with no assets - eg an elderly woman looking after several orphaned grandchildren - are in no position to benefit from growth other than through state or private sector transfers.

The implication of all this is that, even while aggregate poverty statistics remain favourable, a narrow focus on policies that promote growth, with insufficient attention to equity, can keep certain groups of poor people in long-term deprivation or push others into poverty, perhaps for shorter periods, both of which can have adverse consequences for children.

Third, most of the literature on economic growth and poverty employs a narrow income-based definition of poverty. However, income poverty is but one aspect of deprivation and the relationship between average income and improvements in non-income dimensions of (childhood) poverty across countries is less robust. For example, countries with higher income levels tend to have lower infant and child mortality rates, but there is a considerable degree of variation: low mortality rates are achievable at relatively low income levels (Hanmer et al, 2002).

20 Most studies find that poverty is mainly transitory. However, given problems in measurement error which tend to exaggerate consumption variability, it is likely that chronic poverty is more important quantitatively than is often assumed (McKay and Lawson, 2003).

Furthermore, there is almost no correlation between income growth and improvements in the Human Development Index[21] across countries (Minujin et al, 2002). In China, infant mortality fell rapidly during the 1960s and 1970s, despite slow growth; in more recent decades, growth has been rapid but reductions in infant mortality have slowed (White, 2003). Improvements in under-five mortality have even been achieved in the face of negative growth, as demonstrated in Zambia between 1965 and 1997, although mortality rates have since increased (Norton et al, 2000). Clearly, income does matter, and growth is arguably important for sustaining improvements in human development over long periods, but other factors are also important, especially public spending priorities.

Fourth, the policies currently advocated for growth are not reducing poverty rapidly enough. World Bank (2000) estimates show that the dollar-a-day headcount in the developing world (excluding China) fell minimally between 1990 and 1998 (from 28 to 26 per cent), while population growth meant that the total numbers living in dollar-a-day poverty increased, mainly in sub-Saharan Africa. There is great concern that income and non-income poverty reduction is not proceeding fast enough for the Millennium Development Goals to be met (Black and White, 2003).

Vandemoortele (2003) estimates that current progress will have to increase, in most instances markedly, in order to achieve the Goals in income poverty, education, gender equality, under-five and maternal mortality, child malnutrition and HIV/AIDS.[22] Other studies use more sophisticated econometric techniques to reach similar conclusions (Hanmer and Naschold, 2000). The conclusion that emerges is that income and non-income Millennium Development Goals are unlikely to be met at current rates of income growth, particularly in sub-Saharan Africa and South Asia. Since it is very unlikely that growth rates will be raised to sufficient levels to achieve the Millennium Development Goals, getting 'on track' requires policies that ensure growth is more equitably distributed. Redistribution of the required level need not generate large inefficiencies since very small changes in income distribution can have substantial impacts on the incomes of the poor. White and Anderson (2001: 277) provide a good illustration of this: 'Calculations show that in many countries growth of 8 per cent is needed to achieve the [Goal] of halving poverty. So if overall growth is 4 per cent a redistribution of 4 per cent [of the incomes of the poor] is needed. Assuming the poor's current income share is 6 per cent (the international median), this is a redistribution of 0.24 per cent of national income'.

Why redistribution matters

It has been argued that the role of redistribution in generating poverty reduction is highly limited - at least in comparison with growth-oriented policies - and some studies have claimed

21 UNDP's composite index of infant mortality, literacy and life expectancy.

22 Only one Goal is 'on track', which is to halve the proportion of people without access to safe water by 2015, but this hardly represents an achievement when the original target set in 1990 was to reach universal access to safe water by 2000 (Vandemoortele, 2003).

empirical support for this (eg Dollar and Kraay, 2002). However, such arguments are misplaced, not least because the limited impact of redistribution on poverty reduction in some empirical studies may simply reflect the low priority given to redistribution in orthodox economic development strategies (White and Anderson, 2001). In other words, redistribution has not been seriously attempted; thus, such conclusions lack an evidence base.

The impact of growth on poverty depends on how equally or unequally the benefits are distributed among the population, and this is usually strongly influenced by the existing distribution of income and productive assets and the policies used to achieve growth. Where income and assets are distributed unequally or where growth is associated with rising inequality, poor people will benefit less, although this outcome may be improved by pro-poor public expenditures which growth makes possible. For example, Hanmer and Naschold (2000) find that growth is three times more effective in reducing the incidence of poverty in low inequality countries than in high inequality countries. Ravallion (2000) estimates that, of countries with positive income growth, income poverty reduction has been about ten per cent per year on average where inequality has fallen, but just over one per cent where inequality has risen.

In other words, even for those who do not regard inequality as intrinsically important (as it is, for example, from the perspectives of social exclusion and health) inequality matters because it determines the extent of growth-driven poverty reduction. Another reason that inequality is important, elaborated in Box 2, is that initial inequality and redistribution (positively or negatively) affect subsequent growth and, therefore, poverty reduction in the long term.

Researchers have attempted to use cross-country regression analysis[23] to ascertain the relative importance of growth (and pro-growth policy) and redistribution in generating poverty reduction. In a much cited, but controversial, paper Dollar and Kraay (2002) estimated that, across developed and developing countries, factors such as low inflation and liberal trade were, on average, good for growth, but did not systematically increase or decrease incomes of the poorest quintile, implying that growth, and the policies used to promote it 'benefit the poorest in society as much as everyone else' (ibid: 219). On the other hand, public spending on health and education and primary education enrolment are not found to be significant determinants of the incomes of the poorest quintile, once their impact on average incomes is accounted for, implying that redistributive spending is, therefore, an ineffective way to combat income poverty.[24]

---

23 Regression analysis is a statistical technique used to determine the relationships between a variable of interest, such as growth, and multiple explanatory factors simultaneously.

24 By looking at the bottom quintile, Dollar and Kraay's (2002) results pertain to relative poverty and are not generalisable to absolute poverty, since absolute (dollar-a-day) poverty incidence varies considerably across countries (eg from one per cent of the population in Algeria in 1988 to 80 per cent in Zambia in 1993) (Minujin et al, 2002). In addition to the heavily biased conclusions that were drawn (given the substantial departure from the average as indicated in Dollar and Kraay's results), there are also some methodological problems with Dollar and Kraay's paper, which relate to an arguably flawed estimation strategy lacking proper tests to ascertain the robustness of results for many explanatory variables (White and Anderson, 2001).

However, there are important methodological problems with cross-country regressions which call into question the robustness of results.[25] Results are often highly dependent on methodology and the choice of explanatory factors, meaning that different studies point to different factors of importance for poverty reduction and sometimes present conflicting results, although the significance of per capita income is generally acknowledged. For example, Gundlach et al (2001) employ the same methodology as Dollar and Kraay (2002), but use different education indicators to demonstrate the opposite conclusion: achievement in education - where quality is accounted for - does directly increase the incomes of the poorest income quintile in addition to its indirect effects by raising growth. To cite another example, Filmer and Pritchett (1999) argue that public spending on healthcare does not explain differences in infant and child mortality across countries, once per capita income is controlled for. Yet Hanmer et al (2002) use more robust methods to show that specific health indicators, notably immunisation coverage and the number of doctors per person, do directly explain differences in mortality rates across countries, in addition to those explained by income differences. While such issues do not negate cross-country analyses - and, as in the latter case, attempts are often made to mitigate some of the problems - their usefulness in informing policy at country-level is certainly questionable.

Some fear that income redistribution through taxation, by lowering incentives for undertaking risky investment, may lower growth and, therefore, slow poverty reduction in the long term. However, this is difficult to test for, and theory is equally consistent with the opposite effect. Furthermore, any potentially adverse effect needs to be weighed up against the positive impact on growth that redistributive transfers through taxation can have by correcting market failures (eg investing in human and physical capital), as well as the notion that increments to income produce greater welfare benefits for poorer people.[26] Additionally, recent evidence has cast doubts on the traditional argument that inequality is necessary for growth. Most evidence shows that high inequality, particularly in asset distribution, impedes growth in poor countries by lowering investment in human and physical capital and generating crime and social unrest (see Box 2).

25 Temple (1999) provides an overview of studies which examine the determinants of growth across countries using regression analysis. Particular problems arise because: (1) unobserved country-specific factors such as institutional capacity can bias regression estimates; (2) it is often difficult to distinguish the effects of policy inputs from more easily observed outcomes (eg international trade policy and the actual amount of international trade a country participates in are not equivalent measures of openness - see Section 3.2); and (3) determining the direction of causality - and therefore providing policy guidance - is problematic (eg while income growth does lead to human development, a better educated workforce is also more productive, innovative and adaptive to change).

26 Income is a highly imperfect proxy for what economic policy really wants to promote - that is, welfare. It is used because it is easily measured and can be simply aggregated; but, apart from omitting large areas of welfare entirely, it contains an inherent distortion. The welfare effect of $1 of additional income depends critically on the initial income (and wealth) of the recipient, but is equally weighted regardless of who receives it. This leads to a systematic over-valuation (in welfare terms) of the incomes of the rich at the expense of the poor. Growth-maximisation institutionalises this distortion; and consideration of income distribution, even if it were taken as seriously as growth, would not provide an adequate corrective (Woodward, 2004).

Thus, in some instances (eg asset redistribution), growth and progressive distributional change are complementary. However, in areas where trade-offs occur, assuming diminishing returns to both growth and redistribution, the optimal solution to reduce poverty will necessarily be a combination of growth-oriented and distributional measures. There is a direct trade-off between income growth and children's wellbeing in the short to medium term, most clearly because sending children to school instead of making them work, has immediate costs for income but long-term benefits by enhancing growth rates.

Since the early- to mid-1980s, inequality has risen within most developing countries for which reliable time-series data are available - in all Central and Eastern European and Central Asian countries, most Latin American and many South and East Asian countries - and often substantially (Cornia and Court, 2001). Cornia and Court contend that this increase in inequality cannot be explained by changes in 'traditional' causes of inequality, such as an urban bias in development spending and concentration of land and natural resources. Rather, the rise in inequality is most likely to be the result of the macroeconomic and structural reform policies pursued during the period. For example, excessively harsh and rapid inflation stabilisation often generates recession, which usually increases inequality in developing countries by lowering the wages of unskilled workers.[27] Where macroeconomic adjustment has been achieved through cuts in public expenditure, access to basic health and education services has declined, even as incomes rose, eg in Tanzania (Danielson, 2001). (These issues are discussed further in Section 3.3.)

Estimates for the world (excluding China) show that international inequality, measured by comparing countries' per capita incomes, has increased since the early 1980s (Milanovic, 2002a).[28] This is important because it indicates the level of international redistribution that could be achieved, especially given rising global income, to support poverty reduction in developing countries - eg through aid budgets.

27 In the former Soviet Union, recession has reduced wages for most employees, including skilled people, the majority of whom, particularly in the public services, have suffered a serious wage decline (Rachel Marcus, personal communication). Here, part of the reason for the rapidly rising inequality has been the severe concentration of state assets among former managers due to poorly designed industrial and, in some cases, agricultural privatisation programmes.

28 A number of studies estimate that world income inequality (ie inequality among the world's population) rose during the 1990s, mainly due to the rise in inequality between countries (Milanovic, 2002a). Others make contrary claims. For example, Sala-i-Martin (2002) estimates world income inequality to have fallen since the 1970s, and consistently throughout the 1990s. However, Milanovic (2002a) argues that this study is based on dubious assumptions, selective use of data (such as the exclusion from the sample of former Soviet countries which have experienced large rises in inequality), and methods which tend to artificially reduce estimates of within-country inequality and therefore world inequality.

Box 2. Does inequality affect income growth?

Redistribution is often unpopular with economists, presumably because traditional economic theories imply a trade-off between growth and equality. The 'rich' are argued to save a greater proportion of income than the 'poor'; therefore, attempts to redistribute income from rich to poor people directly lower aggregate savings and funds available for investment, as well as reducing productive incentives, thereby lowering growth.

A certain degree of inequality is inevitable in a market economy because of individuals' differing skills and abilities,[29] and the need to reward effort and entrepreneurial risk. However, the arguments that inequality is necessary for growth and that redistribution necessarily slows growth are unreasonable, not least because investments in human capital through public healthcare and education can be efficient because they raise worker productivity. In fact, poor people may have higher human capital investment rates than rich people in terms of education, because they are likely to invest a greater portion of additional income in schooling.

Recent evidence (eg Deininger and Squire, 1998; Barro, 1999) has generally concluded that inequality, at least in land distribution and in low-income countries, is bad for long-term growth because it results in low rates of investment in physical and human capital. Concentration of land ownership often means that a large proportion of land is administered by tenants who often rent under contractual arrangements like share-cropping where tenant incomes are determined by production. However, because this means that tenants only receive a portion of any extra revenue generated by investment, the arrangements lead to under-investment in the land. Therefore, progressive land redistribution, by promoting incentives to invest in production, as well as providing collateral through which poor people can gain access to credit, is both equitable and may enhance investment and growth.

Imperfectly functioning credit markets,[30] which affect low-income countries particularly severely, limit poor people's (especially those with limited assets to use as collateral) access to loans. It therefore also limits their ability to invest in education, healthcare and productive assets, while at the same time concentrating investment resources among the wealthy, whose marginal investments are relatively less productive because of diminishing returns (Addison and Cornia, 2001). The implication is that land redistribution and/or income redistribution to subsidise poor people's investments in human and physical capital will be efficient.

>>>continues overleaf

29 The extent to which these differ between rich and poor people depends partly on childhood experiences of nutrition, healthcare and education (Harper et al, 2003).

30 Credit market imperfections arise, inter alia, where creditors are unable to determine the likelihood of investment success and/or of borrower repayment, or are unable to effectively spread risk between loans, resulting in borrowers facing high interest rates, requiring large collateral reserves or not being given credit at all.

Box 2 - *continued*

High levels of inequality can also undermine socio-political stability, because a system in which rewards accrue to the wealthy or to particular social or ethnic groups will be seen as unfair, potentially leading to crime and social unrest, which discourage investment (Alesina and Perotti, 1996). The undermining of social cohesion is particularly detrimental for children who place high value on the quality and stability of social relations (Harper, 1999 cited in Norton et al, 2000). In extreme cases inequality can generate conflict, which destroys production and existing human and physical capital stocks and has disastrous implications for children's development. Once again, in such cases redistribution will promote growth and child welfare by enhancing social cohesion.

Addison and Cornia (2001) argue that the impact of inequality on growth is dependent on the level of inequality or, more accurately, on how observed inequality diverges from potential inequality that would arise under conditions of equal opportunity and socially acceptable pay structures. Low levels of inequality and excessively high taxation reduce incentives to exert effort and take risk, thereby stifling growth. At high levels of inequality, growth is restrained because of insufficient human and physical capital investments due to credit market failures or socio-political instability. The authors find some preliminary evidence for this relationship in cross-country data.

Policies to generate pro-poor growth and maximise benefits to children

A great deal of the debate on growth and poverty reduction has been concerned with the extent to which growth at the macro-level is 'pro-poor' - in other words, the extent to which poor people share in aggregate growth.[31] However, as elaborated above, the policies usually advocated to promote growth are not adequate to generate pro-poor growth. Growth is not fast enough to reduce significantly the number of poor people in countries with high inequality and/or fast population growth - as in sub-Saharan Africa, which experienced negative per capita growth between 1990 and 2001. This is not to argue for a return to unsustainable public sector budgeting and restrictive trade policies that discriminate against goods produced by poor people. Macroeconomic stability is an important prerequisite for growth, although it is hardly a growth strategy and countries that trade more with the rest of the world also have higher incomes.

31 There have been few attempts to define 'pro-poor growth' explicitly. McCulloch and Baulch (1999) define growth as pro-poor if the poverty reduction generated is at least as much as that which would be achieved in a situation in which distribution remained unchanged. White and Anderson (2001) go a step further to argue that growth should count as pro-poor if poor people benefit by more than their current income share. The problem with the latter is that countries are judged unequally: for example, growth in country A, in which the poor benefited proportionally more than in country B, could actually be c onsidered less pro-poor if country A's initial inequality was sufficiently greater than B's. This implies support for the measurement of pro-poor growth according to some international norm (White and Anderson, 2001). If the norm chosen were international average (median) share of the poorest quintile, equal to about 5.5 per cent (Hanmer and Booth, 2001), this would mean that growth would count as pro-poor if incomes of the poor rose by more than 5.5 per cent.

However, there is much debate about the levels at which eg inflation must be brought down and the ways in which countries can use trade policy to stimulate growth. (These issues are discussed in Sections 3.2 and 3.3.)

Ensuring that the poorest benefit from economic change requires a specific focus on policies that benefit the poorest people. Two issues are particularly important to consider when formulating policies to maximise the pro-poor characteristic of growth:

1. Growth will produce the most poverty reduction where it is concentrated in unskilled labour-intensive sectors of the economy where poor people are mostly engaged - usually agriculture, small enterprises and, in some cases, industry, depending on the structure of the economy and labour force. Using policy to support these sectors is therefore essential, but it is not enough: support has to be given in a way that increases poor people's incomes if poverty reduction is to be achieved.

2. Pro-poor growth strategies need to tackle income inequality and will, arguably, be most successful where they deal with its causes, ie inequalities in the distribution of productive assets such as land, capital and education. Poor people's production and investment possibilities are often extremely limited, and this can be very inefficient as well as inequitable, and therefore detrimental to growth. Redistribution of productive assets, including human capital, by improving productive capacities and providing greater control over assets so that people are more willing and able to invest, enables more poor families to engage in new opportunities and can, therefore, reinforce growth.

In this context, two types of policies can be identified that are particularly important for generating growth that benefits children: improving the accessibility and quality of basic services, and promoting women's wellbeing.

Basic services (in healthcare, education, water and sanitation) are essential, not only to protect children from deprivation, but also to promote human capital due to the strong complementarities between investments in human development and income growth. While income growth is necessary to sustain reductions in income and non-income poverty, low levels of human development and widespread poverty reduce possibilities for income growth. The positive relationship observed across countries between human development and growth has been referred to as a 'virtuous circle', where income growth and equitable policies reinforce one another; in the same way, inequitable policies can exacerbate 'vicious circles' of weak growth and low human development (White, 1999; Ranis et al, 2000). It is easy to see the channels through which these effects operate. For example, uneducated workers are likely to be less innovative and responsive to change; poor health and nutrition reduce labour productivity; extreme poverty and vulnerability reduce the willingness and ability to undertake investments or shift towards more profitable, but risky, production.

Much evidence provides support for the dual promotion of economic growth and human development for generating sustained improvements in living conditions over long periods. The United Nations Development Programme has long emphasised that attention to both economic growth and social development is essential for long-term improvements in children's wellbeing. Mehrotra and Delamonica (2002) highlight significant inter-linkages or 'feedback loops' between interventions to promote economic growth, on the one hand, and social development, on the other.[32] The most widely cited cases are East Asian economies, which achieved unprecedented increases in living standards using this strategy among other policies (see Box 5), but there is also evidence for complementarities between growth and human development from other regions. In empirical studies, education is usually found to be a key determinant of economic growth (eg Temple, 1999) as well as a fundamental determinant of the poverty alleviating potential of growth. For example, Datt and Ravallion (2002) find that in India during the 1990s, literacy rates explained over half the difference in the extent to which non-agricultural growth reduced poverty between Bihar and Kerala (the states with, respectively, the lowest and highest degrees of responsiveness to growth). There is evidence that education also raises agricultural productivity: it has been documented as the most important determinant of people's willingness to adopt new agricultural technology in sub-Saharan Africa and parts of East Asia (Quisumbing, 1995; Danielson, 2001).

There is some evidence suggesting that human development is of primary importance. In a study by Ranis et al (2000), which assessed 67 countries' growth and human development between 1960 and 1992, all countries with a relative bias towards economic growth and away from human development - Côte d'Ivoire, Gabon, Sierra Leone, Togo, Brazil, Egypt and Pakistan - fell into a vicious circle over time. On the other hand, countries with an orientation towards human development (eg China, Indonesia and Chile), often graduated to a virtuous circle over time. This implies that pro-poor growth strategies need to be preceded by or have inclusive human development policies from the start (White, 1999).

It is beyond the scope of this paper to discuss in detail issues of public versus private provision of services such as healthcare and education which are vital for children's development. The theoretical case for public provision of basic services is strong (see Box 3), although there may be instances where private provision is the only feasible option.[33]

32 Evidence from UNICEF studies in Barbados, Botswana, Costa Rica, Cuba, Kerala in India, the Democratic Republic of Korea, Malaysia, Mauritius, Sri Lanka, and Zimbabwe in the 1980s supports this argument (Mehrotra and Jolly, 1997).

33 For example, there may be public resource constraints in physically remote or low population density areas. However, this provides a stronger case for additional public resources, eg from increased aid, since expansion of the private sector may have a detrimental effect on public services through competition for scarce inputs.

Box 3. The case for public provision of basic services

Markets require certain conditions such as competition and an effective regulatory environment to be most effective. But even where these exist, markets are unlikely to provide adequately services vital for childhood development like basic healthcare and education. There are at least three reasons for this, which relate to both equity and efficiency concerns.

1 Privatised healthcare and user charges are highly inequitable, not only because poor and many non-poor people are least able to afford them, but also because poor people are likely to have higher rates of morbidity across all types of disease.

2 Introducing market competition into public services is dangerous because it is the quality of public goods and services that matters for the consumer (while the free-market ideal relates to price competition). Private actors may lower costs at the expense of quality of service - eg in Malaysia, many private clinics provided cervical screening to new clients seeking family planning services only if asked to do so (Swan and Zwi, 1997; Save the Children UK, 2004). Markets can generate competition on quality, but this requires consumer sovereignty in order to work efficiently - ie consumers need full information in order to make informed choices about the products they demand, which is relatively easy to do where comparisons are made on the basis of price. However, this assumption is often violated in education and particularly health services, where consumers have limited knowledge about health status and necessary treatments, enabling healthcare providers to under-provide when paid on a per capita basis or over-provide when paid on a fee-for-service basis. In addition, particularly at the upper end of the market, competition often arises through non-price aspects of service which do not affect (or may even perversely affect) the effectiveness of health services - eg waiting times, use of injections rather than oral drugs, unnecessary high-tech interventions and checks, luxurious surroundings, etc - which increase prices but do little to increase quality.

3 Finally, there are significant external benefits from healthcare and education which private actors would not consider in their production decisions. For example, one individual's treatment for a contagious disease will have benefits for others who would otherwise have contracted the disease. Educated workers raise the productivity of the uneducated workers they come into contact with when they share knowledge that is beneficial for production.

Mehrotra and Delamonica (2002) argue that current levels of public spending on basic services in developing countries are far too low, particularly in sub-Saharan Africa. Total public spending rarely exceeds 25 per cent of GDP in developing countries - compared to 40 per cent on average in industrialised countries - and spending shares of GDP on basic health and education are also lower in developing countries, eg revenue bases are below ten per cent in many sub-Saharan African countries. These trends reflect lower revenue collection in developing countries: it is very difficult to raise revenue where a substantial share (or even the majority) of the population lives below the income poverty line and works in the informal and/or non-monetised sectors.

What matters for service delivery is expenditure per person. For example, the World Health Organisation's Commission on Macroeconomics and Health (2001) found that a minimum of $30-40 per person is necessary for a functioning healthcare system, which is far above feasible revenue levels in many low-income countries, especially in sub-Saharan Africa. Even if low-income countries were able to significantly increase the share of expenditure in GDP, many of them would not reach required levels. There are therefore strong arguments for donors to increase total aid budgets by increasing aid from current historical lows - less than 0.3 per cent of donor incomes - to the Development Assistance Committee-agreed 0.7 per cent target. However, the ability of public sectors to absorb and benefit from large increases in aid may be limited by available resources and government administrative capacity, implying initial prioritisation of additional aid towards resolving these problems and strengthening tax collection capacity. Important issues relating to debt sustainability also imply that in highly-indebted countries, any increase in aid would need to be in the form of grants or at least highly-concessional loans.

A second key policy to promote children's wellbeing in the context of economic growth is the empowerment of women which is an important end in itself. Women's power in the household is a key determinant of children's allocation of resources, since women generally spend a greater proportion of their incomes on children than men. Quisumbing and Maluccio (1999) find that in a broad group of countries (Bangladesh, Ethiopia, Indonesia and South Africa), households where women's control over assets, including human capital, is relatively strong, also have greater expenditure on children's education and clothing.

However, in many societies, discrimination against women remains pervasive, particularly in South Asia and Africa. For example, Smith et al (2003) estimate that under conditions of equal gender status, there would be 13 per cent (13 million) fewer underweight children in South Asia and three per cent (nearly two million) fewer in sub-Saharan Africa. Tackling discrimination in society directly is clearly an important long-term action. However, there are other methods of positive discrimination towards women over shorter periods, for example through female bias in development spending by prioritising investments in water supply and sanitation and labour-saving technology (including providing appropriate technology for women to use) to reduce the burden of domestic work. Where this increases the time available for childcare, particularly in the context of external changes enticing or pushing women into more economic activities outside the home, this may be particularly beneficial to children.

Another important strategy is to help women gain access to credit for investment and provide a means to save for insurance purposes. However, there are likely to be significant constraints to improving insurance and credit for poor households both financially and in terms of administrative capacity in poor countries. Microfinance schemes such as the Grameen Bank in Bangladesh have helped many women in these respects (although not always the poorest). Evidence on the impact of microfinance on children's wellbeing is relatively sparse. However, studies from Bangladesh, Honduras, India and Uganda have indicated that children of households receiving microfinance are more likely to attend school and less likely to drop out. Evidence from

Bangladesh and Ghana suggests that children of microfinance recipients have better nutritional outcomes, while evidence from Bolivia, Ghana and Uganda suggests that women participating in microfinance programmes which also provided basic health education, had better breastfeeding practices and were more likely to give better healthcare to their children (Littlefield et al, 2003).

Promoting gender equality in education is likely to be important for future generations of children, since educated women often have lower fertility rates and may provide better physical care for their children, all other things being equal. Educating women can therefore have a substantial payback in terms of economic growth. For swifter impacts on children, eg as part of a strategy to reduce malnutrition during periods of rapid economic and social change, there may be a good case for targeting specific education messages to mothers - eg regarding good feeding practices and use of preventative healthcare such as immunisation, both of which were important determinants of nutritional status among children in urban Ghana (Ruel et al, 1999). However, it may also be the case that feeding practices such as bottle-feeding instead of breastfeeding arise not due to a mother's ignorance, but because of adverse living conditions - eg because of time pressures from income-generating activities, and the aggressive marketing of breast milk substitutes. Promoting breastfeeding will thus be difficult in such instances, and there may be a strong case for targeted interventions to ease women's income and time burdens, eg through child benefit programmes.[34]

More generally, development of the rural sector - in particular through growth in agriculture, which employs the majority of the world's poor - is crucial for swift poverty reduction. However, it is stressed that agricultural growth is not enough, given that increasing production on a global scale depresses prices and therefore slows the rate at which producer incomes rise (and possibly even reduces them) (see Section 3.2). In addition, policies may, in practice, discriminate against poor farmers even if they are not designed to.

Policy measures to promote growth in agriculture and the rural sector include progressive land redistribution, improving poor people's access to credit and insurance, investment in infrastructure and appropriate technological innovation (eg to improve resilience and yields of staple food crops) (IFAD, 2001). Land redistribution can have substantial benefits for agricultural performance and poverty reduction in labour surplus economies as demonstrated, for example, in East Asia during the 1960s. However, there are also concerns that children from some households benefiting from land reform could lose out. In Zimbabwe during the 1980s and 1990s, child nutritional outcomes were worse in households that benefited from land reform than those that did not, in part due to increased work pressures reducing carers' time use (IFPRI, 1998). This suggests that land reform needs to be accompanied by improved access to appropriate technology, in order to reduce women's working hours and free up time for childcare. Evidence that girls from land-rich households in Ghana and Pakistan are more likely to work and less likely to

34 Barrientos and DeJong (2004) show that such programmes are feasible and effective if there is the political will to finance them.

attend school than those from land-poor households, suggests that land reform needs to be accompanied by policies to improve returns to educating girls, eg through direct cash transfers to parents who send girls to school, and reducing gender discrimination in the labour market (Bhalotra and Heady, 2003).

Box 4. Summary: strategies for achieving pro-poor growth for children

Continued focus on policies to promote growth without redistribution will lead to insufficient reduction of childhood poverty and increasing inequality. High inequality is bad for poverty reduction, directly because it reduces the rate at which growth immediately reduces poverty, and indirectly by reducing growth itself and, therefore, prospects for poverty reduction in the long term. The best way to tackle income inequality is to tackle its causes, particularly the distribution of assets such as land and education. Evidence suggests that countries with equitable distribution of land and education grow more quickly and convert growth into faster poverty reduction because poor people are the drivers of growth rather than the eventual beneficiaries.

While a focus on growth promotion may be necessary for sustained income and non-income poverty reduction, growth is not necessarily poverty reducing. Different types of growth, determined by different processes and sectors that drive growth, will have different outcomes for poverty reduction. Pro-poor growth strategies therefore need to focus on improving poor people's access to productive resources, notably human and physical capital, and will have maximum effect on poverty when implemented in sectors where poor people work and which use unskilled labour intensively, notably agriculture. Important policies to promote agricultural growth and maximise rural poverty reduction include land reform, public investment in staple food technologies, irrigation and infrastructure and rural credit schemes. However, policies to promote agricultural growth such as land reform may need to be accompanied by policies to limit potential adverse effects on children, such as cash transfers to encourage parents to send children (particularly girls) to school.

Of particular importance for children (but also of importance more generally) are policies to promote human development and women's status:

- Basic services provision benefits children directly in terms of education, health and nutrition status, as well as improving their lifetime earning potential, but is also a vital component of policy to promote economic growth, due to the strong complementarities between growth and human development.

- Women's status is important in itself and in view of evidence suggesting strong relationships with child wellbeing. Confronting discrimination against women in everyday society is an important aspect, but there are other interventions, such as reducing the burden of

Box 2 - *continued*

women's time by prioritising investments in water and sanitation and labour-saving devices. Other interventions include reducing financial constraints on women through access to financial services, and educating girls to encourage the uptake of preventative healthcare such as immunisation when they are mothers. Direct cash transfers may be desirable where income constraints restrict women's caring practices.

3.2. Trade liberalisation

International trade and, particularly trade liberalisation, are the subject of enormous controversy because the evidence that trade liberalisation promotes growth is questionable, and because the costs and benefits of global market integration have been very unequally and regressively distributed - poor countries and poor people have not benefited to anywhere near the extent that wealthy countries and people have, where they have benefited at all. The latter is in large part because global trade rules, as determined and enforced by the World Trade Organisation, are massively biased against poor countries.

It is clear that international trade has the potential to generate huge improvements in wellbeing for poor people. For example, if developing countries were able to increase their share of world exports by five per cent, it is estimated that this would generate over $350 billion in export revenues, which represents seven times more than they receive in aid; even a one per cent increase would generate revenues equivalent to an increase of $30 per capita in low-income countries (Oxfam, 2003). The key issue is how to achieve these benefits.

As with adjustment more generally, people often take extreme views on the role of trade liberalisation in development, partly because of the extremist viewpoints presented by commentators on both sides of the argument. This in turn is due to the fact that much of the argument reflects ideological positions based on theory because evidence is inconclusive.

Opponents of liberalisation cite the hypocrisy of the global trading system and the huge bias of existing trade rules against poor countries. This has been demonstrated by the large subsidies the EU and US government use to protect their own agricultural producers, limit poor country farmers' access to their markets and depress world prices. The attempted use of multilateral trade rules such as the TRIPs[35] agreement to prevent South Africa and Brazil from accessing cheaper, generic alternatives to patented HIV/AIDS drugs is another example of the unfair global

35 The agreement on Trade Related Intellectual Property Rights (TRIPs) provides investors with temporary monopoly control over innovation (therefore preventing copying of technology by others), with the aim of encouraging private sector innovation. The agreement was implemented under pressure from developed countries which stand to gain significantly. In contrast, the poorest countries, more likely to be consumers than producers of innovation, are likely to lose out if the agreement is rigidly enforced (McCulloch et al, 2001).

trading system. However, opponents also seldom recognise that blanket trade restrictions nearly always impose welfare costs on society, whether imposed unilaterally or in response to protectionist measures of other nations, and may stifle growth, most obviously in developing countries by raising the price of capital inputs to production. Trade policy is seldom maintained for the benefit of poor people, but rather to support powerful lobbyists and those closely affiliated with the political class.[36]

Proponents of trade liberalisation believe that increased trade is already benefiting poor people and therefore that freer trade will benefit them even more. However, they too easily dismiss the reality that the beneficial theoretical implications of reducing trade restrictions, eg in terms of raising incomes, are often contingent on strong assumptions which, when violated, produce ambiguous and even conflicting results. Thus, for example, theory assumes away issues of market power (yet in reality, small domestic producers will find it difficult to compete with large multinationals) and market access (producers of non-internationally traded goods will, by definition, be unable to benefit from exporting) (McCulloch et al, 2001). Proponents of trade liberalisation also ignore the fact that reliance on a small number of primary commodity exports among many low-income countries depresses commodity prices (the ‘fallacy of composition’) and leads to low-income traps. Simultaneous export promotion in multiple countries, together with the downward impact of competitive devaluation of national currencies on world prices, led to a chronic decline in international prices of commodities such as coffee and cotton during the 1980s and 1990s.[37]

Proponents of trade liberalisation also ignore adverse effects on government revenue and historical experience. There are also fears that liberalisation, by raising returns to low-skilled work in poor countries, could lower incentives to educate children and increase the incidence of child labour. The implication is that only when universal basic education is attained will (particularly poor) children not lose out from trade liberalisation in low-income countries.

Another reason for the wide divergence of opinion is the time period under consideration. Often, supporters of free trade emphasise long-term positive effects while failing to give sufficient weight to the short-term negative implications of liberalisation. However, the short term does matter, particularly for children for whom even temporary hardship can lead to permanent detriment. Berg and Krueger (2002) argue that empirical evidence supports the contention that openness leads to higher growth and poverty reduction. However, nowhere do they allude to the fact that trade liberalisation necessarily entails costs to some groups: in order to realise long-term gains from opening up to external trade, economies must undergo a period of adjustment,

36 For example, many African governments held agricultural prices artificially low to benefit urban consumers at the expense of the rural poor. Such policies, together with the tendency to promote healthcare and education in urban areas at the expense of rural areas, are arguably the principal cause of the huge rural-urban inequalities in the developing world (Lipton, 1977).

37 EU and US subsidisation and dumping are also partly responsible for depressing world prices of some commodities. Oxfam (2002) estimates that US cotton subsidies cost African producers some $300 million in 2001/02 in terms of lost revenue.

during which some groups of people - particularly poor people - lose out eg because of changes in prices and unemployment. Of course, other groups may gain from liberalisation, including some poor people, and in theory at least many of those losing out initially will find gainful alternatives. However, in reality, poor people are particularly at risk because they are usually both unable to protect themselves and their children from the adverse welfare impacts, and unable to benefit eg by shifting production into more profitable goods and services.

Resolving these conflicting positions is an empirical matter. Therefore, this section reviews empirical literature on the impact of trade liberalisation on poor people, with special attention to children. First, literature on the long-term impact of trade on income growth and inequality is examined. This includes an examination of the possibility that openness increases child labour. Trade policy is often presented as a choice between the extremes of total liberalisation and staunch protectionism. However, the best strategy for some economies has been to undergo a process of managed liberalisation by opening up gradually, and issues relating to this are subsequently discussed. Second, shorter-term adjustment issues are considered, including impacts on households through prices, employment and government services. This section also addresses gender issues, which are important determinants of the effects of reform on children's wellbeing.

Trade, growth and inequality

Trade is the means through which markets generate income improvements beyond that achieved by subsistence production. This is as true at household-level as it is at country-level. The theory of comparative advantage concludes that trading with the rest of the world improves welfare - in terms of a static, one-off increase in real income - by enabling economies to specialise in goods or services which they produce relatively efficiently (using relatively abundant resources - ie unskilled labour in low-income countries) and consumers to access goods and services at the lowest possible prices. By increasing production of goods which the country does not have a natural advantage in producing, trade restrictions artificially raise returns to scarce over abundant resources. Therefore, by stimulating unskilled labour-intensive production in developing countries, theory predicts that trade liberalisation raises returns to unskilled labour in developing countries, thus lowering inequality. External trade may also promote dynamic gains in terms of long-term economic growth, for example by speeding up the diffusion of knowledge and technology and allowing exporters access to broader markets in which to expand.

Theory is clear about the static welfare gain from trade liberalisation, although there are also 'losers'. However, the arguments for dynamic (ie growth) gains are far less clear, since they are based on the need to be competitive in international markets. International competitiveness can also be achieved in ways which are detrimental to children, eg by exploiting child labour.

A substantial number of cross-country empirical studies claim support for the argument that trade promotes economic growth (eg Sachs and Warner, 1995; Frankel and Romer, 1999).

However, this literature is controversial.[38] Rodriguez and Rodrik (2000) present a solid critique of this literature, arguing that empirical studies examining the impact of trade on growth have used inappropriate and misleading methodologies to produce estimates vindicating the authors' prior beliefs.

Many studies measure openness by the volume of trade in which an economy participates (typically the ratio of imports, or imports and exports, to total income), rather than direct measures of trade policy (eg average tariff levels). However, trade openness as measured by the volume of trade and trade policy are not equivalent. The volume of external trade in which a country participates is the outcome of a variety of factors, domestic trade policy representing only one, and not necessarily the most important, of these. For example, Vietnam's external trade has increased enormously - from being a net rice importer in the 1980s, it was the world's second largest rice exporter by the late 1990s. Because of this, Vietnam has been presented as a model for reform, although a very high degree of protection remained during this period while various liberalisation measures were undertaken (Kokko, 1997 cited in White and van Donge, 2003). Other important factors determining developing country trade volumes are geography (countries that are smaller, close to major markets and coastal tend to trade more, other things equal), protectionism practised in rich nations, and the quality of institutions for managing trade, both domestic and global (principally, the World Trade Organisation, which holds the key to enhancing the developing world's market access to industrialised countries).

In sum, although economies with high trade volumes are generally those with stronger growth, robust links from openness in terms of trade policy have not been empirically validated. To sum up, as Rodrik (2000: 1) argues, the empirical studies boil down to 'saying that "participation in world trade is good for a country" [which] is as meaningful as saying that "upgrading technological capabilities is good for growth" and equally helpful to policy-makers. The tools at the disposal of governments are tariff and non-tariff barriers, not import or export levels'.

In the theory of comparative advantage, specialisation occurs according to each economy's relative access to production resources, which are assumed fixed. However, where production resources change over time in relation to the economy's trading partners - eg due to public investment in education to improve human capital availability, and support for technological development, as occurred in East Asia in the 1960s and 1970s - comparative advantage will also change. A country's initial conditions in terms of technology and capital stocks can also be important determinants

38 Determining the causal relationship between trade and growth is particularly difficult, ie while openness to trade may be an important determinant of growth rates, it is also likely that higher income or faster-growing economies are better able to compete in international markets. Use of aggregate trade ratios (ie the share of imports plus exports in GDP) to represent trade openness is particularly problematic, as imports substantially reflect foreign exchange availability or constraints, eg a large increase in aid will increase the trade ratio and growth simultaneously. Furthermore, economies that have benefited from trade may be those that chose to liberalise when economic conditions were good. Frankel and Romer's (1999) study aims to control for reverse causation by using geographical characteristics as proxy instruments for openness and finds them to be significant determinants of growth. However, this approach of assessing the geographical determinants of trade is unable to provide guidance on the effect of trade policy on growth (Rodriguez and Rodrik, 2000).

of the impact of liberalisation on long-term growth. For example, where an economy is substantially behind in terms of technological development, trade liberalisation can compel it to specialise in slow-growing, low-value, traditional production, leading to slower growth. Low human and physical capital stocks may constrain the domestic economy, both from competing with foreign firms as well as from harnessing benefits of technology imports. Baliamoune (2002) suggests the latter may be the reason why low-income liberalisers have grown so slowly in Africa, while higher-income countries have experienced higher growth. These are the classic arguments for temporarily protecting an infant industry, until it is able to compete in world markets, an issue examined in Box 5.

Box 5 - Managing trade liberalisation: lessons from East Asia

Current orthodoxy argues for swift across-the-board trade liberalisation as a motor for development. Part of the rationale for these views is that previous trade policies (in terms of border restrictions and regulation of internal prices) had induced severe biases against production of labour-intensive agricultural products in poor countries, particularly in Africa, therefore reducing both growth as well as the income share of the poorest (Krueger et al, 1987). Proponents argue that even if liberalised trade has not produced the economic recovery expected in some parts of the world, poor people in those countries are better off than they would have been had the restrictive policies remained. However, even if this were true, there is a menu of policy alternatives between the extremes of fully liberalised and staunchly protected trade, policy interventions that could be used to stimulate private domestic industrial development. Notably, experience in East Asia showed that state interventionism (through import-substitution industrialisation (ISI) policies, to aid the development of import-competing and eventually export-oriented industry) and gradual liberalisation programmes could be implemented successfully with beneficial consequences for growth and poverty reduction.

East Asian ‘Tiger’ economies (Taiwan, South Korea, Indonesia, Malaysia and Thailand) achieved massive improvements in incomes through the growth of high-value manufacturing exports between the 1960s and 1990s. However, this was not achieved by swift liberalisation of external trade. Crucial to East Asia’s manufacturing growth were import restrictions through protectionist trade policies, export promotion through subsidies for manufacturing industry, and gradual liberalisation once international competitiveness was achieved. While that may have entailed costs in terms of higher prices for consumers in the short run, these formerly primary commodity-dependent economies acquired comparative advantage in manufacturing which has brought substantial long-term benefits (Watkins, 1998).

Any economic rationale for public intervention in the market via trade policy must fulfil three conditions: (1) there are market failures which market mechanisms by themselves are unable to solve; (2) government intervention can improve on the free market outcome, and (3) intervention via trade policy is the best way to do this given the feasible alternatives. For

Box 5 - *continued*

industrialisation, there are strong reasons for the first condition to be satisfied: industrialisation requires innovation or adoption of new technologies, which is inherently risky and involves high costs of learning and co-ordination problems. This process requires fully-functioning markets for insurance and credit - markets which operate highly imperfectly, if at all, in most low-income countries. The second condition is more difficult to fulfil: government must identify technological activities with strong potential, and implement context-specific and flexible policies which evolve as the markets and institutions develop (Lall, 1994). While the best way of doing this may be to foster capital market development while subsidising industry in the early stages of its growth, this may not be feasible given budget constraints. The best alternative may be ISI, to shield industry from foreign competition through selective rather than uniform trade interventions, withdrawing public intervention over time to allow exposure to international competition - ie the infant industries must be allowed (forced) to 'grow up'.

The major concerns are that government will not be able to identify and foster viable industries ('nurture winners') and that protection will produce monopoly rent-seeking, lower incentives to develop and therefore increase pressure to keep trade barriers up permanently, to the detriment of consumers.

There were varying degrees of success in East Asia.[39] For example, in South Korea import substitution was successful in generating manufacturing export growth because government implemented import restrictions selectively, in that restrictions were lowered for essential inputs to manufacturing production. Import substitution failed for a long time to generate manufacturing export growth in Indonesia because the government protected an uncompetitive industry dominated by vested interests (Watkins, 1998).

There are potentially great benefits but also risks with ISI. It therefore remains unclear how (or whether) the successful East Asian policies and results could be transferred to other parts of the world - Latin America, South Asia and sub-Saharan Africa - where many past interventions have been ineffective and subject to corruption. The greatest constraints to successful implementation of ISI in these regions relate to the competence of industrial policy-making institutions in designing appropriately specific and adaptable interventions, and their autonomy from private industry which would determine whether they would be able to act effectively as regulators of the infant industry (Ranis, 2003).

39 Possibly in part due to the different experiences in East Asia, there has been some controversy about the East Asian story. In fact, there are two versions of events; the one presented above and the World Bank version in its report The East Asian Miracle, which attributed success to promotion of human and physical capital accumulation and macroeconomic stability (which were, of course, also important components), contending that industrial policy had little discernible impact. This version was criticised for presenting a highly biased viewpoint, again supporting authors' ideological positions more strongly than 'hard' evidence (Amsden, 1994).

Box 5 - *continued*

However, the argument for countries to experiment with ISI is strong. Not only did ISI arguably lead to rapid development in East Asia, but nearly all developed countries, especially the US and UK, used protection and subsidies to develop industry. Virtually no country (except Hong Kong) has shown strong and sustained trade-led growth without an initial period of successful ISI. ISI is arguably a necessary condition for successful development (Chang, 2003).

In any case, the biggest barriers to the use of ISI are the international financial institutions which make their loans conditional on liberal trade policies, and World Trade Organisation rules which restrict countries from employing the types of policies used successfully in East Asia, including the use of tariffs to develop export industries, export subsidies, domestic content requirements on foreign direct investment and copying foreign technologies (Wade, 2003). Increasing scope for interventionist industrial policy would, first, require a shift in international financial institution ideology and, second, a change in World Trade Organisation rules to benefit poor countries.

What of the effect of opening up trade on income distribution? As noted above, the movement in the distribution of income is a crucial determinant of whether growth lifts people out of poverty or not. Cross-country evidence tends to support the notion that trade openness does not, on average, alter the distribution of income (White and Anderson, 2001). However, this may be because the effects depend on the level of development. For example, Milanovic (2002b) finds evidence that, at least for Latin America and Africa, openness to trade at low-income levels increases the income of the rich relative to poor and middle-income groups, but in middle-income countries, benefits poor and middle-income groups relatively more than the rich. The effects of international competition for trade may also exert a key influence on the impact of trade for the distribution of income. For example, one of the key reasons why trade reforms have been associated with increasing wage inequality in Latin America since the mid-1980s is that China's recent integration into the world market has displaced gains to unskilled workers that would arguably otherwise have occurred in Latin America (Wood, 1997).

Openness and child labour

Child labour is a complicated and emotive topic, with no easy solution. It is harmful where it impairs children's development, eg by exposing them to danger or by conflicting with education. Where it is not exploitative or harmful and where the outcome has benefits that outweigh the implications of a child not working (such as greater destitution), child labour will not be detrimental. Most child work in developing countries occurs in family production, usually in agriculture, and may not be full-time and thus does not necessarily conflict with schooling, especially as school schedules are often sensitive to the needs of the agricultural cycle in developing countries (Bhalotra and Heady, 2003).

In theory, trade liberalisation can have two opposing effects on child work in developing countries (Cigno et al, 2002). Firstly, openness, where it raises the incomes of poor, credit-constrained families, should reduce child labour and enable parents to invest in their children's education. Secondly, in standard trade theory, openness in low-income countries raises wages of unskilled workers relative to skilled workers and therefore provides both incentives for children to work because the wages they receive are higher, as well as reducing incentives to invest in education.

Edmonds and Pavcnik (2003) argue that in Vietnam in the 1990s, the liberalisation of export and internal trade restrictions on rice increased rice prices and household incomes of rice producers, reducing the overall need for households to rely on child labour, although child labour increased among net rice-buying households. Cross-country regression analysis also suggests that trade openness does not increase child labour incidence on average, and in Latin America, the analysis suggests that trading reduces child labour (Cigno et al, 2002). However, there are strong arguments for universal basic services provision to be achieved before substantial liberalisation in low-income countries, in order to reduce the risk of adverse outcomes for children.

Well-intentioned Western consumer pressure on developing world producers to eliminate child labour may have undesirable consequences for those children laid off. For example, in the mid-1990s, US consumer pressure to ban the imports of products using child labour led to the dismissal of about 50,000 child workers under 14 years of age in the Bangladesh garment sector - the majority of whom subsequently were forced into more exploitative jobs, including child prostitution - and many families relying on child labour became even more impoverished. A school programme was established, funded by UNICEF and the Bangladesh Garments Manufacturers and Exporters Association, to mitigate the impact on child workers by locating former child garment workers and placing them in schools run by NGOs. The programme tried to keep the children in school by giving them a monthly payment of US$6 (although this was less than half of what children could earn if working), providing lunch at school (depending on availability of donor funding), and providing credit and training for income generation. The Association also agreed to employ other members of the child's family aged over-14. Unfortunately, the programme only benefited a minority of the children (20 per cent) - the remainder could not be traced (Crawford, 2000; McCulloch et al, 2001).

The impact of trade at the level of the household

There have been a number of recent reviews of the evidence linking trade liberalisation at the macro-level to poverty at the household and sub-household level (McCulloch et al, 2001; Winters et al, 2002). The general conclusion from these studies is that the effect of trade liberalisation on poverty is highly context-dependent. There are several reasons for this:

1 Countries implement different pre-reform degrees of protection. It is likely that the impact of reforming a very closed economy (ie one with highly distortionary trade policies) will differ hugely from - and is more likely to be positive than - the impact of reform from lower levels of protection.

2 Trade restrictions take many forms and are imposed on different types of goods to the benefit of different interests. Liberalisation, therefore, can mean many things - such as the reduction and removal of barriers to trade on imports and exports, deregulation of state marketing boards - and have different implications for different groups. For example, trade restrictions are often imposed not only on imports, to protect domestic producers, but also on exports, to the detriment of producers. Agricultural trade liberalisation has often resulted in increases in staple food prices (because these have often been held artificially low by state marketing boards to benefit urban populations), redistributing income from urban to rural areas.

3 Liberalisation of external trade is often undertaken at the same time as other internal sector reforms (eg as part of an international financial institution structural adjustment programme), which not only makes isolating the impact of trade reform more difficult, but can also alter the implications of trade reform for poor people.

4 Liberalisation creates 'winners' and 'losers' and operates through a multitude of channels, making it difficult to determine the overall effects of trade on poor people. An important aspect of this is the impact of trade on household insecurity and vulnerability.

There are three main channels through which trade reforms will impact on children: by affecting real incomes (determined by prices, employment and wages); carers' time use; and public spending. In this section, case study evidence is presented on these channels of transmission. However, few empirical papers directly assess trade liberalisation's impact on child wellbeing. Where evidence is available, particular attention is paid to studies documenting impacts on women, due to the strong associations between women and children's wellbeing. While the possible transmission mechanisms from trade policy to the household and subsequently to children are multi-faceted and it is important to analyse each case study individually, it is possible to draw some general policy conclusions, which are highlighted subsequently.

Impacts on the household: prices, wages and employment

The immediate impact of trade liberalisation is to alter prices of internationally-traded goods.[40] As a first approximation, reductions of tariffs on imports lower prices of imports as well as of import-competing domestic goods. The direct effect on household income of the price change is therefore determined by how the household trades in the good: price reductions increase real incomes of consumers and lower incomes of producers. In many cases, however, agricultural trade reforms have increased prices earned by agricultural producers or exposed them to new markets, to their benefit. For example, evidence from Vietnam suggests that rice trade liberalisation contributed substantially to reducing rural poverty (Justino and Litchfield, 2003).

40 This paragraph represents somewhat of a simplification. Where foreign exchange constraints are binding (see footnote 43), trade liberalisation requires devaluation to improve export competitiveness and raise import prices, because cheaper imports deplete foreign reserves more quickly. The result is a spectrum of price changes with potential increases for the least protected tradeable goods (as devaluation effects outweigh liberalisation effects), which are often essentials (Woodward, 1992b).

Where trade reforms raise prices of staple foods, this can be expected to redistribute income from urban (mainly food consuming) to rural (mainly food producing) areas. Since agriculture typically employs the largest proportion of poor people, this can be expected to have generated net income benefits for poor families and children. Though there is much evidence that farming is not necessarily the principal livelihood source for rural households (Ellis, 1998), agricultural growth is likely to generate demand spillovers for other rural livelihoods such as construction and trading, in which poor people are likely to be employed. However, in the short term, agricultural trade liberalisation that raises staple food prices will be detrimental to non-farming households or those that are net food consumers. A principal concern will therefore be to support children and mothers' nutrition in urban areas and net food purchasers in rural areas, in order to prevent widespread malnutrition, as occurred in urban areas in Congo (Martin-Prevel et al, 2000) and Jamaica (Handa and King, 2003) following currency devaluation.

Many poor families in rural areas do not have access to international goods markets because of high transport costs and the low quality of goods they produce. Furthermore, physically remote households are often severely disadvantaged in trade, because they are more likely to be served by traders who can exert monopoly power in determining prices.[41] The implication is that, given the existing state of the infrastructure, but also factors such as unequal access to vital inputs such as water and irrigation and unequal market power, trade liberalisation cannot be a driver of income poverty reduction in these areas (IFAD, 2001). For this reason, donors such as the World Bank have provided support for infrastructure projects in many parts of the world. Poor families in remote rural areas will not be able to benefit from trade through policies which aim to 'get the prices right' alone. They also need better access to assets, including human capital and physical inputs to production, notably land, water (irrigation) and equipment (ibid).

It is often argued that greater openness to international trade reduces vulnerability to domestic shocks. However, by exposing poor people to more external price shocks, liberalisation may increase economic insecurity, and therefore more families will be susceptible to transitory poverty, which can have long-term implications for (particularly young) children's development. Where trade liberalisation is accompanied by deregulation of state marketing boards, farmers who previously depended on these institutions to buy from them at pre-determined prices may be exposed to greater risks of price fluctuations, although at a higher average if the same institutions also held prices artificially low, as well as to reduced access to inputs formerly provided by marketing boards. Thus, overall, farmers may be more vulnerable and may face a higher risk of

41 Where trade liberalisation includes privatisation of purchasing markets, poor producers can lose out, even where price changes would otherwise be favourable to them, if an uncompetitive private purchasing market emerges which does not pass on beneficial price changes to producers and restricts purchasing in remote areas, as occurred in Zambia, for example (Oxfam/IDS, 1999 cited in Winters, 2002). On the other hand, in Zimbabwe, the purchasing market resulting from privatisation was competitive, with the result that farmers received higher prices brought about by trade reform, as well as better supply of inputs brought about by competition. Part of the reason for success in Zimbabwe was the establishment of a farmers' co-operative, which competed with the other private purchasers and enhanced farmers' market power. However, co-operatives will not be a panacea unless past failures are learned from, including being more responsive to small farmers' needs and a general bottom-up orientation.

falling into poverty. The same mechanism is likely to operate to reduce the willingness of poor households to shift production to more profitable areas, thus leading to some being trapped in chronic poverty cycles - that is, left behind in the long term.

The ideal policy response is to improve social insurance mechanisms, as well as improve access to affordable credit, so that people are able to invest in new opportunities. Public social insurance mechanisms are especially important because informal, community social insurance can break down where economic shocks are community- or economy-wide (where all households are affected, thus precluding households from co-insuring).

A second immediate area of short-term adjustment will be through employment. While the destruction of firms and jobs can be rapid, firm and job creation is often slow, and in households where wages constitute a large share of total household income and which suffer from extended periods of 'structural' unemployment, children will be especially at risk. Issues of child labour and trade have been discussed above. However, the link between employment of children's carers and child wellbeing is strong. For example, half the households of retrenched civil servants in Togo had to withdraw at least one child from school (World Bank, 1996 cited in Marcus and Wilkinson, 2002). Long-term parental unemployment has key negative implications for children's schooling and future labour force outcomes. The evidence is mixed on unemployment duration following trade reform: for example, adjustment has been swift in Mauritius and Panama, but slow in Guinea and Ecuador (McCulloch et al, 2001).

Gender issues

Where households respond to the new incentives generated by reform by substituting or diversifying livelihoods and consumption, the effect on child welfare outcomes depends crucially on the intra-household allocation of resources and time and family structure.

In many cultures, there is a clear gender division of labour within the household. For example, many women and (often, female) children are assigned the responsibility of water and firewood collection, and in many African societies, women are responsible for subsistence crop production and household chores, while men control cash crops. In such circumstances, a shift to production of tradeable goods may reduce women's bargaining power and therefore intra-household resource allocation, to the detriment of children (Elson, 1995). Even where income is shared equally, economic shocks can have different implications for different family members where members' activities are constrained. A principal concern of the gender literature is that women's burden of work and time poverty may increase due to changes induced by liberalisation, with adverse implications for childcare and therefore children's nutrition and health, learning outcomes and security. Where paid work directly reduces time for cultivation of food crops, nutritional standards may suffer, as the Oxfam/IDS study highlighted in Zambia (Winters, 2000). In Uganda, women's workloads increased following liberalisation, leading to heightened food insecurity and reduced breastfeeding (Elson and Evers, 1997 cited in Winters et al, 2002). Unfortunately, because economic analysis usually attaches zero weight to unpaid work and time in the household, such important impacts on women and children are not usually assessed.

On the other hand, where the work means higher incomes and women contribute a greater proportion to household income, this may be beneficial for children. For example, Glick and Sahn (1998) find evidence that increased women's work has a positive impact on nutrition by increasing income, but a negative effect by reducing time available for childcare in urban Guinea. Where women's work increases because of the family's need to meet basic needs, trade-offs may be necessary, and effects on childcare may be mitigated if women's work occurs as a substitute for employment of other household members, who are able to provide good quality childcare. However, where female employment occurs due to increased labour demand rather than need, and alternative carers are not available, effects on children are more likely to be negative. For example, Kishor and Parasuraman (1998) estimate that infants of working mothers have higher mortality rates in India, once other determinants of mortality such as socio-economic and biological factors are controlled for.

A response strategy that involves men migrating to find work and leaving women behind can directly increase women and children's workloads and increase time poverty, and may result in women or older children having less time for childcare, thus affecting its quality. Where the entire household migrates, children may be taken out of school. Households that become (more) income poor may have to reduce expenditure on nutrition, health and education. This is not to suggest that trade liberalisation should necessarily be blamed for these outcomes. However, it does highlight the need for policy-makers to be aware of changing social structures, and how economic reform impacts on traditional support mechanisms. For these reasons, a formal system of social protection is arguably essential before liberalisation can be undertaken, particularly to protect mothers and children nutritionally and enable children to remain in or access education.

Impact on public revenue

One further area of contention is the implication of trade liberalisation for child wellbeing through public services. In low-income countries, government relies on revenue from trade restrictions to finance the major share of its spending. Indeed, an important explanation for tariffs is government's need to raise revenue in the context of difficulties in collecting taxes from other sources. For example, trade taxes constitute almost half of tax revenues in low-income countries, about one-third in lower middle-income countries, but less than one-eighth in upper middle-income countries (Khattry, 2003). In the context of reduced revenues from other sources (eg because of competition between countries over attractive tax regimes for foreign direct investment and investment income), trade liberalisation can thus be seen as potentially disastrous for poor countries' social expenditure programmes.

Khattry (2003) finds that, in general, trade liberalisation has reduced fiscal revenues in developing countries, with adverse implications for expenditure on physical infrastructure and education, particularly in low-income countries. Low-income countries have also had to rely largely on external funding to maintain revenues, thereby increasing indebtedness.

There may be scope for alternative sources of revenue. In many countries, one reason why domestic tax collection is so low is the huge number of tax exemptions - reform of the domestic tax system may therefore be desirable. Many countries have been advised to implement value-added tax, which taxes poor and rich equally) as a principal revenue source and an alternative to income taxation. There are obvious concerns about the regressivity of such implementation, particularly for taxes levied on goods of principal importance for poor people such as food and fuel. The feasibility of value-added tax also depends on administrative capacity.

Conclusion: maximising the benefits of liberalisation and minimising risks to children

Trade can be beneficial - autarky (ie total self-sufficiency) is certainly not the answer - but liberalisation pursued on its own and too rapidly has not benefited the poorest countries. Failure to address this problem will leave poor countries trapped in vicious cycles of low-value production of primary commodities and low growth. In low-income countries, liberalisation should be preceded by public investments, especially in human capital, to avoid adverse consequences for poor families and children, eg by increasing child labour.

Policies to invest in infrastructure to enable poor people to access markets, particularly in remote rural areas, are important for poor households to benefit from trade. But so, equally, are policies to enable poor people to increase production or shift production into other areas by promoting equitable access to production assets, such as water and irrigation programmes, appropriate technology and credit. However, under the significant public resource constraints faced by many developing countries, and given the need for social protection spending during adjustment, the question remains about how to prioritise these different areas. The role of donor support will be decisive in this regard.

Promotion of labour-intensive manufacturing is an important secondary strategy, at least in part because of the need for poor countries to diversify production away from primary commodities, which are often subject to low and volatile world prices and, in the case of agricultural goods, are highly vulnerable to environmental shocks, particularly in Africa. The major objective is to achieve industrialisation through selective and temporary import controls and export subsidies, and prevent capture by vested interests. Effective institutions are necessary to manage trade - in industrial policy, these need to be competent and independent from industry to provide effective regulatory oversight. This includes rules at international level that are fairer to poor countries.

Social protection measures are essential to reduce the risks associated with negative impacts for children in the context of liberalisation - particularly in the context of deteriorating traditional social protection arrangements, eg due to population movements, or because economic shocks are community- or economy-wide. Examples are:

- programmes to prevent children dropping out of school: providing a quality service which parents and children value; providing food and water at school; opening (more) schools in areas where migration inflows are substantial to protect the education of these families' children; better access to credit among poor people, which may reduce the risk of households responding to economic shocks by increasing child labour. In high risk areas, income subsidies to poor families may be necessary to improve children's school attendance (Barrientos and DeJong, 2004)

- nutrition programmes, particularly in food buying areas, which are most likely to be urban, but also to assist net food buying families in rural areas (eg landless workers). Although not uncontroversial, the combination of school with nutrition is often advocated, and many programmes exist providing these services.

3.3 Inflation and fiscal deficits

This section concerns the links between childhood wellbeing and two main macroeconomic issues: inflation, that is, the general rise in prices (usually referring to consumer prices and expressed as an annual percentage); and public sector (fiscal) deficits, ie where public spending exceeds government revenue and is financed by borrowing. The key policy questions are: what level of inflation should macroeconomic policy target that is compatible with growth and employment objectives, and what level of fiscal deficit is compatible with these? Where inflation and/or deficits are to be reduced, the issue is how to achieve this in a way that minimises the negative impacts on poor families and children.

The issues are addressed separately below, although they are often seen as closely related. Inflation is closely linked to, although not solely determined by, government macroeconomic decisions, in terms of monetary and fiscal policies which governments use to manage demand. For example, inflation can arise if government stimulates demand through monetary policy (by expanding the money supply and lowering interest rates) or fiscal policy (by increasing spending or lowering taxation to increase the fiscal deficit), and production cannot increase to meet the extra demand, ie because there is no spare capacity in domestic production and imports are limited because of a foreign exchange constraint.[42]

42 Foreign exchange is necessary for an economy to conduct external transactions, eg buy imports and pay external debt. Foreign exchange is usually held in US dollars, the most widely accepted currency for international transactions. For this reason, foreign exchange constraints for the US (and to a lesser extent other developed nations whose currencies are also accepted for international transactions) are far less binding than they are for developing countries. A country receives foreign exchange from exports, aid, foreign borrowing and foreign investment; the foreign exchange constraint is therefore determined by limits on these.

When inflation is very high and unstable, it jeopardises growth prospects and therefore income poverty reduction and rates of increase in key public services for children.

However, even where existing domestic production is at full capacity, government spending need not lead to inflation if it is invested to relax constraints on supply - either directly by increasing the supply of inputs to production (including human capital) or indirectly, eg through investment in physical infrastructure such as roads, to improve links between buyers and sellers in the economy. During periods of recession, demand is artificially low given potential domestic supply, producers are unable to sell their goods and incomes, employment and real wages therefore fall. In these circumstances, increasing the fiscal deficit, by reducing taxation and/or increasing government spending, is an important means of stimulating demand and, therefore, increasing employment and incomes.

While this section primarily concerns inflation and fiscal deficits, which are internal aspects of macroeconomic policy, it is not possible to provide a thorough analysis without also referring to the external dimensions of macroeconomic policy, ie the exchange rate and the balance of payments.[43] When private domestic savings remain low, fiscal deficits are financed by borrowing from abroad (from foreign governments, foreign commercial banks and multilateral institutions such as the IMF, World Bank and regional development banks). These loans represent inflows of foreign exchange in the balance of payments, and are therefore important determinants of the volume of imports developing countries can purchase given demand. Indeed, foreign aid is often given explicitly to support imports because other sources of foreign exchange, such as export revenues and foreign investment are insufficient. Accumulation of annual fiscal deficits creates a debt stock, the servicing of which requires foreign exchange reserves. However, excessive foreign borrowing may, under changing external conditions, lead to financial crises, in which foreign exchange earnings are insufficient to support import purchases and foreign debt payments. Financial crises are harmful because they can bankrupt domestic banks and firms and generate increasing unemployment, poverty and social unrest, as well as lead to major constraints on public expenditure, often with negative implications for key services for families and children. In order to improve the balance of payments, the exchange rate must adjust through devaluation to reduce demand for imports and stimulate exports.

From the 1970s to the 1990s, many countries faced severe macroeconomic imbalances, culminating in balance of payments and debt crises, notably in Latin America and the Caribbean, Africa, East Asia and Russia. The trigger for many of these crises was the drying up of sources of foreign exchange. In response, most developing countries have undertaken macroeconomic adjustment reforms, usually under the direction of the IMF (see Box 6).

---

43 In general, a rise in domestic demand (eg due to expansionary fiscal or monetary policy) leads to an increase in demand for imports, which would tend to worsen the current account of the balance of payments, possibly leading to (or worsening) a trade deficit. A trade deficit has to be financed through inflows of foreign exchange from other sources (such as aid and private capital). Where these are not available, or previous sources dry up, it will not be possible to sustain the level of imports given existing demand and the level of the exchange rate.

While the need for macroeconomic adjustment in these circumstances was well founded, IMF policies can be criticised for neglecting the negative impact on poor people and children in particular by failing to protect pro-poor public spending. The policies were pursued so stringently, with the aim of restoring macroeconomic health (as indicated by inflation and the balance of payments) too quickly, bringing about or worsening deep recession, with severe social and economic consequences and damaging implications for children's long-term development (see Box 7).

Box 6 - IMF adjustment programmes

IMF adjustment programmes constitute a set of macroeconomic policy measures to be applied in countries facing balance of payments and high inflation problems. These programmes combine two mainstream theories of the balance of payments.

On the one hand, an early stage of IMF programmes usually involves devaluation, which is intended to improve the balance of payments by promoting export competitiveness, raising the prices of imports, and reducing import demand. However, there are important implications of devaluation which relate firstly to the external context, in terms of the devaluation policies of other countries, and secondly to its pressure on other goals of macroeconomic adjustment, principally inflation and debt. First, where countries that produce the same export commodities simultaneously devalue their currencies to promote exports, this can lead to an increase in world supply and falling prices, thus lowering export revenues below what would be expected from an individual devaluation, and even reducing overall export revenues, as occurred during the 1980s for primary commodities such as coffee and cocoa (Woodward, 1992a). Second, devaluation not only increases the prices of imports, but also goods relying on imports as production inputs and goods competing with either of these, which overall tends to lead to substantially higher inflation (and erodes the effects of the devaluation). By raising the cost of foreign exchange, devaluation also increases the government's foreign debt servicing requirements, undermining debt sustainability, especially in the context of low growth due to recession. Furthermore, in the short term, a devaluation may actually worsen the current account of the balance of payments, eg where domestic firms are unable to respond quickly to increase production of exports and import substitutes. Devaluation is, therefore, usually counter-balanced by tight fiscal and monetary policies to curb inflationary effects and reduce upward pressure on the fiscal deficit.

On the other hand, IMF programmes feature the long-term requirement of tight monetary policy (high interest rates, limits to domestic lending by the banking sector) in order to control economy-wide demand and stabilise foreign exchange reserves, characteristic of the monetary approach to the balance of payments. The latter is based on the monetarist notion that expansionary monetary policy cannot raise domestic production - the extra demand generated by monetary expansion will simply lead to higher imports and falling foreign exchange reserves, and/or inflation. It follows that long-term balance of payments stability is directly related to control over the money supply. There are, however, huge costs to this approach in

Box 6 - *continued*

terms of limits on domestic investment, growth and employment expansion and therefore poverty reduction. Furthermore, the model's basic assumptions are questionable: it assumes the economy is at full employment and therefore there is no excess production capacity.

For macroeconomic policy to be most beneficial for children and poor people generally, it should prioritise minimising fluctuations in output and maintaining full employment. However, this is not compatible with IMF programmes targeting excessively low inflation and fiscal deficits, often at the expense of domestic demand and employment. During financial crises, experience has shown that interventions targeting children and mothers are essential to protect many from the worst effects and, importantly, if prioritised, can be successfully administered even while overall public spending is falling as demonstrated in the area of education in Indonesia in the late 1990s (see Box 7). However, the optimal policy to protect children and families is to have macroeconomic policy which aims to reduce income and employment instability and the likelihood of crisis. Unfortunately, for ideological reasons (eg relating to prioritisation of inflation over employment objectives) this has often not been the case, although there are some exceptions, eg Chile's more recent experience in managing capital flows.

Box 7. Responding to financial crisis: experiences in Latin America in the 1980s and East Asia in the 1990s

In Latin America and East Asia, macroeconomic policy responses to financial crisis pushed by the international lending community were grossly lacking and arguably deepened the effect and prolonged the duration of the crises. In many cases, children have suffered serious consequences. However, the different experiences of different countries mean that lessons can be drawn, not only concerning macroeconomic policy but also about social policies to protect children.

During the 1970s, many developing countries were able to finance large fiscal and current account deficits by borrowing, as opposed to adjusting to reduce the deficits. Indeed, they were encouraged to borrow by foreign banks, which had a great deal of funds, and by highly favourable lending rates, which in many cases were negative in real terms since inflation was often higher than interest rates. This led to developing countries stockpiling huge debts, but which under the circumstances seemed sustainable. However, following the second Organisation of Petroleum Exporting Countries oil crisis in 1979, the response in the major developed countries was to tighten monetary policy to minimise inflation, which led to soaring real interest rates and, because of subsequently falling import demand, falling prices of developing country export commodities. This had the effect of substantially increasing debt service payments and reducing sources of foreign exchange to finance growing current account deficits because new borrowing was extremely expensive and revenues from exports declined. This culminated in the debt crises, in which many governments had to defer debt payments, beginning in Mexico in 1982 and, as sources of foreign lending dried up, quickly spreading to most of Latin America and the Caribbean, as well as Africa and Asia.

IMF financial support was contingent on deflationary monetary and fiscal policies to bring down inflation and reduce import demand, generating trade surpluses to provide foreign exchange to service the foreign debt. The macroeconomic policies were, however, excessively deflationary, and aimed to achieve rapid improvements in the stated macroeconomic objectives, at the cost of prolonged recessions, in which national incomes declined,

Box 7 - *continued*

unemployment and under-employment soared, income distributions deteriorated, spending on education and health was cut and poor families and children suffered greatly. Poverty rates and inequality rose in most Latin American countries (Costa Rica, Dominican Republic, Guatemala, Mexico, Panama, Venezuela, and in urban Argentina, Chile and Peru) during the 1980s (Lustig, 1999). It has been argued that it is not possible to distinguish the impact of the policy response from the initial crisis and therefore determine whether the economies would have been better off without the reform programmes. However, this misses the point: given the (mis)management of borrowing and lending at the global level at the time, macroeconomic reforms were inevitable, but could have been achieved in less detrimental ways for children if the focus had shifted towards mitigation of social consequences, particularly through protection of basic social spending, rather than allowing it to be cut to reduce overall deficits.

In the context of general cuts in public spending, the experiences of children in Brazil and Chile highlight the difference that targeted programmes that prioritise spending on children can make in the short term (Cornia et al, 1987). In Brazil, there was no coherent social plan to protect the most vulnerable (although there were some social investment programmes such as the Finsocial but these were of limited scope and failed to reach many of the poorest) and spending on children was not protected. In Sao Paulo state, infant mortality rates, which had previously been declining, rose in 1983-84 as did rates of failure and drop-outs in school, child abandonment and delinquency. In Chile, on the other hand, social policy deliberately aimed to alleviate the effects of the crisis on children and, as a result, child welfare did not decline markedly in most of the early years, and infant mortality and immunisation rates continued to improve. Important policies included public works programmes (employing 13 per cent of the labour force in 1983), subsidies to under-eights and pregnant women, nutritional surveillance and supplementation for all those under-six, and primary school feeding programmes. These were achieved despite overall cuts in government spending, demonstrating that, given the will to do so, countries can maintain pro-poor spending during crises. Of course, the government's policies were contradictory since Pinochet's economic reforms, which oversaw rapid privatisation and the bankrupting of the financial system, contributed significantly to the crisis and led to rapidly rising wage inequality (Petras et al, 1994). By the mid-1980s, some of the progress in child mortality was reversed as the limitations of targeting programmes over longer periods became apparent in the context of economic stagnation and rising income poverty and, therefore, a rising overall need for assistance, but falling revenues for financing (Cornia et al, 1987).

Similar macroeconomic policies were prescribed in response to the financial crisis in East Asia in 1997, although the causes and symptoms of the crisis were very different. The cause of the crisis is hotly debated. While high indebtedness of domestic firms and risky loan portfolios of domestic banks were partly responsible, excessively liberalised capital markets - policies the IMF had previously promoted - enabled panicked foreign and domestic investors to transfer their funds abroad, while freedom to convert local currency into foreign currency led to speculative attacks, with huge costs to tax payers in terms of foreign exchange reserves as governments attempted to support fixed exchange rates at unsustainable levels. The symptoms of this crisis were large outflows of domestic and foreign investment, massive exchange rate devaluation, and rising unemployment and child poverty. The response of the international lending community - to lend conditional on recipients implementing contractionary monetary and fiscal policies (the latter including public spending cuts and increases in taxes) - paralleled that of the Latin American debt crisis in the 1980s.[44]

---

44 The IMF and G-7 countries provided $95 billion to enable Indonesia, Korea and Thailand to support their exchange rates and thus prevent further outflow of investment, on the condition that they massively raised interest rates in order to restore investor confidence. The textbook argument is that, in open economies with free international capital mobility, higher interest rates will arrest the outflow, preventing further weakening of the currency and therefore further outflows of capital and rising foreign debt. However, higher interest rates did not restore confidence - higher borrowing costs increased the likelihood of highly indebted domestic firms defaulting on their loans and going bankrupt, which arguably undermined confidence further, driving out even more investment (Stiglitz, 2002).

Box 7 - *continued*

However, prior to the crisis, East Asian countries had budget surpluses and low inflation; the problem was one of large private sector debt rather than public sector debt. The tight fiscal policies made the recessions far more severe than they needed to be and were the opposite of what was required - the depressed economies needed demand stimulation through fiscal expansion (Stiglitz, 1999). The contrast between Malaysia and the others is striking. Malaysia, which did not agree a bail out programme with the IMF, but instead imposed temporary restrictions on international movements of currency, as well as devaluing its currency immediately rather than substantially raising interest rates, experienced a much shorter and less severe crisis than other countries.

The ensuing recessions led to severe contractions in national incomes (exceeding ten per cent in Indonesia and Thailand in 1998), sharp increases in unemployment and under-employment (women being particularly affected), rising poverty (almost doubling to 20 per cent in Indonesia in 1996-98) and food insecurity among low-income groups (Kittiprapas et al, 2002). Indonesia and Thailand were worst hit, economically and socially. Child poverty increased markedly, as millions of children (often girls) dropped out of school or did not enrol, particularly among poor families. Child labour soared and child wages fell in Thailand and Indonesia. Even more worrying was the large increase in the number of street children in Indonesia, as well as increased child prostitution, child abuse and infant abandonment in both Indonesia and Thailand (ibid).

Most social welfare programmes were not effective in reaching the poorest, and there were even instances where programmes for the poor suffered despite overall spending being maintained, eg in Thailand in 1998, nominal spending on health programmes for the poor (benefiting 35 million people) were cut by half. Some (formal and informal) attempts to contain adverse impacts on children were successful. In Indonesia, for example, the well-designed 'back to school' programme, which provided scholarships for poor children and mobilised the mass media and society to keep them attending, mitigated the adverse impact on drop-outs and enrolments in target villages (Cameron, 2000).

A major problem was that most countries affected had previously neglected their social safety nets and were therefore ill-prepared to deal with the social impact of the crisis (Kittiprapas et al, 2002). Existing safety nets were usually limited, and many vulnerable people had to rely on informal safety nets and coping mechanisms.

Inflation

There are many potential causes of inflation. Most obviously, inflation reflects excess demand in the economy given supply. Inflation can also be driven by rising production costs, eg due to an increase in prices of crucial inputs as occurred in oil importing countries during the oil crises of the 1970s, in which the Organisation of Petroleum Exporting Countries cartel engineered huge increases in oil prices by restricting supply. Furthermore, various structural features of the economy can mean that inflation is self-perpetuating, for example due to indexation or where wage increases rise with inflation and, hence, raise the prices of goods.

During the 1980s, many countries experienced very high or hyperinflation, which reached as high as 33,000 per cent in Nicaragua in 1988 (White and Dijkstra, 2003), although this was an extreme case.[45] These high levels of inflation have been brought under control, which is undoubtedly a prerequisite for growth. The relevant policy question today is not whether inflation stabilisation is necessary, but the extent to which it should be pursued and the pace and methods with which it is achieved.

IMF programmes usually aim for single-digit inflation, yet there is no evidence that bringing down inflation to such excessively low levels is necessary for growth. Empirical analysis has shown that the impact of inflation on growth depends on the level of inflation. Very high inflation is certainly bad for growth. For example, it is extremely difficult to make borrowing and investment plans where prices are highly unstable and unpredictable, although this may be mitigated where interest rates are indexed to inflation. However, once inflation is reduced to a certain level, there is no evidence that further reductions in inflation are good for growth and, in fact, the policies used to reduce inflation further are likely to reduce growth where stabilisation targets excessively low inflation. There is strong evidence that the critical level of inflation is around 40 per cent (Bruno and Easterly, 1997) - ie much higher than the targets usually specified by IMF programmes.

What is clear is that there is no empirical evidence that excessive inflation stabilisation - as in the IMF's aim of single-digit inflation - will improve growth prospects. On the contrary, too much inflation stabilisation is harmful for growth: deflation (ie monetary and fiscal contraction to reduce the level of demand) reduces demand for domestic production, and raises unemployment. Furthermore, public spending cuts which reduce investment undermine recovery through expansion of domestic production. Deflationary policies are most destructive where they are implemented at the same time as structural reforms such as trade liberalisation which often generate unemployment while domestic enterprise responds to the new conditions. In such circumstances, what is usually required is spending to help boost the supply side of the economy and generate expansion of output and employment. Zambia and Mozambique in the early 1990s are examples of countries where tight spending limits constrained growth in supply. Other countries, such as Ghana and Sri Lanka, generated a good supply response by expanding spending at the same time as liberalisation.

Moreover, inflation stabilisation when achieved through orthodox means - ie by raising interest rates and cutting public spending substantially - is distributionally regressive and can generate severe recessions, which lead to rapidly rising inequality and poverty, including among children, as experience from Latin America and East Asia, among others, has demonstrated (see Box 7). Poor families suffer the greatest losses from a recession since they are the least able to protect themselves, eg by relying on savings or credit to support consumption and investment in the

45 This discussion is based on White and Dijkstra (2003).

face of unemployment and declining incomes, or switching between sectors and occupations. Moreover, poor families have much less scope for cutting household spending when income falls, and where they do, the effects for children's nutrition, education and health can be serious.

Subsequent growth does not generally reverse the rise in inequality generated in severe recessions, probably in part because of the adverse impact of recession on human development inequalities. For example, in Mexico in the 1980s severe recession led to rising infant and child mortality, declining primary school enrolment and rising primary school drop-out rates in rural areas (while urban drop-outs declined). The poorest quintile was worst affected, as indicated by the increased labour force participation of 12-14 year-olds, which reached a peak of 20 per cent during the crisis between 1994 and 1995, while participation rates among 12-14 year-olds in the other quintiles remained unchanged at six per cent (Lustig, 1999).

Some argue that inflation is disproportionately damaging for poor people (Easterly and Fischer, 1999; Dollar and Kraay, 2002) who are less able to diversify assets and activities to protect their wealth from erosion by inflation, and may also depend on cash transfers which are not fully indexed to inflation.[46] However, this argument depends on the types of assets held by poor people, and implicitly assumes that they are more likely to hold financial assets (eg cash) which do not hold their value in the face of inflation. In rural areas, poor people are more likely to hold real assets, such as livestock, which may hold their value better when faced by inflation than by falling demand due to recession, especially if the latter triggers widespread sales of assets, depressing their prices (Woodward, 2004). Moreover, the impact of inflation on poor people depends on the level of inflation: any analysis needs to balance the adverse consequences of inflation with the adverse consequences of reducing inflation via deflationary policy in terms of declining demand and employment.

Where they have access to credit and their loans are not indexed to inflation, poor people and young families with children, who are more likely to be net debtors, may even benefit from inflation, which erodes the value of their debt. On the other hand, stabilisation achieved through monetary contraction which raises real interest rates is likely to be harmful for poor families by raising the costs of investing in acceptable housing and sanitation (de Vylder, 2002). High interest rates can be particularly damaging for access to credit in rural areas where credit markets are least developed, especially among poor people who are likely to own few, if any, collaterisable assets such as land. However, this depends on how interest rate increases in the formal market feed through into the informal market, on which poor households are more likely to depend. Where credit markets are segmented,[47] as in Brazil, formal interest rate changes are

46 This discussion is a simplification since general 'inflation' is calculated as the (consumption-weighted) average of changes in individual prices of goods and services. Where inflation reflects rising costs of basic goods, it will be more damaging to poor people than where it reflects spiralling costs of non-necessities.

47 This is where, in the context of inequalities in ownership of key assets such as land, separate credit markets develop - formal credit for large landowners with lots of collaterisable land and informal credit (eg 'moneylenders') for small farmers with limited land to use as collateral.

less likely to translate into changes in the borrowing rates faced by rural households. In Indonesia, on the other hand, credit markets are tightly linked, thus interest rate increases during the IMF programme for economic recovery after the Asian crisis led to increased borrowing costs for all (Stiglitz, 1999).

Of the millions who lost their jobs or were unable to sell their produce during recessions in Latin America, Africa and East Asia, poor families have suffered the greatest losses because social security systems were and, in most cases, remain either non-existent or too weak to provide adequate safety nets. Changes in official figures understate the true costs of unemployment because these are hidden by under-employment as demonstrated, for example, by increasing participation rates in informal sectors. Even where people are able to hold on to their jobs, they may lose out through fewer hours and falling wages, as in Indonesia, Malaysia, South Korea and Thailand following the East Asian crisis (Kittiprapas et al, 2002).[48] Rising unemployment is often associated with deteriorating child wellbeing. In East Asia following the crisis, particularly in Indonesia and Thailand, surging unemployment and poverty led to rising nutritional and educational deprivation, the latter particularly among girls, as well as deteriorating physical security and exploitation of children (see Box 7).

In addition to substantial economic costs, the social costs of unemployment or under-employment are often great. Studies have shown that parents' unemployment, particularly where it is long-term, can have severe consequences for children, reducing success in school, increasing chances of children being unemployed in later life, and resulting in lower mental health outcomes. Unemployment may also lead to family break-up (de Vylder, 2002). In addition to income poverty, in participatory assessments, poor people in Latin America and the Caribbean have associated unemployment with alcohol abuse and domestic violence, particularly in urban areas, as well as drug addiction and drug trafficking among unemployed youths in poor areas (Lustig, 1999).

Unemployment is therefore likely to be an important factor in the inter-generational transmission of poor living standards, particularly where it is endured over long periods. But even short-term unemployment can have long-term consequences among vulnerable families, where parents are unable to provide adequate nutrition, particularly for infants and young children, or withdraw children from school.

As Stiglitz (1999) and de Vylder (2002) argue, it is clear not only from a perspective of childhood poverty, but also from a social equity perspective more generally - not to mention from the perspective of productivity and growth - that high unemployment is very likely to lead to deeper and longer-lasting costs for children than moderate inflation. Macroeconomic policy must therefore prioritise maximising unskilled employment at adequate wages. This entails firstly that, where inflation stabilisation is to occur, it should be done through smaller increases in interest rates and, therefore, accepting higher medium-term inflation rates than in IMF programmes, in order to minimise recessionary impacts. Second, as elaborated in the following section, pro-poor macroeconomic policy requires more relaxed targets for fiscal deficits; in particular, to allow

48 More generally, in contrast to developed countries where wages tend to be downwardly inflexible, firms in developing countries often respond to the lower demand for their output by reducing wages and hours worked (Addison and Cornia, 2001).

deficits to rise during recession to support domestic demand and provide adequate safety nets, as well as better prioritisation within budgets of spending programmes for the poor.

Fiscal deficits

Fiscal deficits - ie government debt through borrowing - are important components of macroeconomic policy, especially (although not only) to smooth fluctuations in demand. The key issue regarding fiscal deficits is their sustainability, which is determined by the rate of growth of debt in relation to growth of total income and, therefore, the ability to repay. Where deficits support investment in physical and human capital development, thus raising growth, this should increase the sustainable level of debt, possibly by more than it increases the debt itself. However, unsustainable fiscal deficits (debt growing faster than income, eg because public spending is consumed rather than invested) have adverse consequences for future consumption levels and may lead to financial crises. Large fiscal deficits can generate inflation, where they are financed by printing more money, or 'crowd out' private investment through higher interest rates, where they are financed through domestic borrowing. Moreover, excessively large deficits can lead to financial crises (eg a debt crisis from excessive foreign borrowing).

Sound macroeconomic policy clearly requires deficits to be well-managed and unsustainable deficits reduced to sustainable levels. However, there are serious issues concerning the deficit reduction targets that have been imposed by conventional IMF agreements and the methods and speed with which deficits are reduced.

Firstly, targets for public deficits often exclude foreign assistance on the revenue side of the calculation. Where aid constitutes a large proportion of revenue, the effect is that governments have to reduce drastically projections for government spending, basing them on domestic revenue alone, if they are to comply with deficit targets. The argument for doing this is that aid flows are unpredictable - disbursements depend on the recipient government's commitment to conditional reform packages, as well as political and economic conditions in the donor countries. Yet there is no evidence that aid is generally any less predictable than the other principal revenue source, such as domestic taxation which is included in the revenue calculations. In fact, because tax revenues are highly dependent on economic conditions, particularly in developing countries, there are good reasons to believe that tax revenues would be less stable than foreign assistance in many circumstances (Stiglitz, 2002). However, improving aid predictability, for example through support for sector approaches, in which (multiple) donors provide aid to specific sectors of the government budget, and initiatives to reduce the number of conditions attached to loans will be helpful in this regard.

Secondly, IMF programmes have generally targeted excessively low fiscal deficits and, moreover, have not sufficiently prioritised and protected spending programmes for poor families. For example, during the East Asian crisis, the IMF pushed for excessively prudent fiscal policies which probably exacerbated the down-turn, despite the fact that the economies had historically 'sound' macroeconomic management and entered the crisis with balanced budgets and low inflation. The IMF, at least rhetorically, has reconsidered some of its excessively restrictive views on fiscal deficits in recent years. There is some evidence that it has in practice been more flexible regarding fiscal deficit targets in some Poverty Reduction and Growth Facility agreements (eg Rwanda, Uganda and Tanzania) (Adam and Bevan, 2001), although not in many others (Albania, Ghana, Kenya, Mozambique, Vietnam and Zambia) (Killick, 2002).

Explicit limits for specific categories of spending (eg salaries), sometimes included in IMF programmes, can seriously affect motivation and quality of services, with particularly damaging consequences for children where these are implemented in health and education.

Supporting domestic demand during recession and maintaining key social services are essential components of fiscal policy for child wellbeing, even where it requires a temporarily larger deficit. Broadly speaking, this means government must operate fiscal policy in a counter-cyclical way - that is, increase public spending during economic downturns and reduce spending during recovery. However, fiscal revenue is inherently pro-cyclical (ie revenues from taxation fall in recession, increasing the fiscal deficit), especially in developing countries where revenues rely heavily on consumption taxes (eg on trade and value-added tax and commodity prices.[49]

Safety nets are particularly important aspects of public spending to protect basic needs from severe deprivation, prevent irreversible loss of human capital which may lead to life-course poverty transmission, and prevent poor people from having to resort to harmful activities such as crime, prostitution and child labour. Particularly effective safety nets for children include Targeted Human Development Programmes (Lustig, 1999) which transfer income in cash or kind to poor families with children who must in return send their children to school and visit health centres. These have been implemented effectively in countries in Latin America such as Mexico, Honduras, Brazil, Argentina, Ecuador and Nicaragua (ibid; Barrientos and DeJong, 2004). Furthermore, costs of safety nets may be small, eg in Mexico one Targeted Human Development Programme (Progresa) benefiting two million households costs about 0.2 per cent of GDP. Evidence suggests that countries respond better to adverse shocks where there are institutionalised safety nets which can be scaled up more easily and effectively than in countries where emergency programmes must be hurriedly designed (Kittiprapas et al, 2002). Following the crisis, East Asian countries have been expanding their long-term social security systems.

Public works programmes also have strengths: they are flexible, they can easily be scaled up and down, they tend to reach the poorest since wages are generally low and, more generally, they support demand to help overcome recession. However, because of low wages an important concern is that parents must work longer hours to provide for their families, which would tend to diminish childcare time and be especially dangerous for young children where alternative carers are not available. Support for community care programmes, or even childcare programmes provided directly alongside the public works, may be a solution here. In addition, low wages

49 This does not imply that governments must run fiscal surpluses during periods of recovery, where debt sustainability is increasing due to rising income, but only that deficits will need to be smaller during recovery.

and piecework payment regimes can encourage all family members to participate, and can thus inadvertently increase child labour, often in very physically demanding and potentially harmful tasks.[50]

Where public spending must fall, for example as part of a general macroeconomic adjustment programme intended to reduce very high inflation and/or improve the balance of payments position, it is essential that spending programmes for children are prioritised. Particularly important is the maintenance of programmes in nutrition (eg food subsidies), primary healthcare, basic education, and water and sanitation, in order to prevent potentially irreversible consequences for large numbers of children. Support for early childhood development is vital, but often neglected.[51]

Evidence from previous macroeconomic adjustment programmes demonstrates that it is possible to protect and even improve aspects of child wellbeing given the commitment and using appropriate targeting programmes. Targeted interventions are, however, difficult to design and implement effectively and equitably, and often fail to reach much of the target group. This may be partly due to lack of monitoring and information systems and implementation capacity; improving improving these will therefore be essential in such cases. But there are also inherent problems with targeting: in terms of design (eg the failure of exemption mechanisms for user charges in the health sector), social stigma (which may lower demand), and because administration costs (eg means-testing) may be a high proportion of total costs. More generally, targeting will not be enough on its own - it is vitally important to protect family incomes by prioritising employment as the objective of macroeconomic policy, as well as key child-oriented services.

Another problem concerns the methods used to reduce fiscal deficits. IMF programmes have typically aimed to bring down fiscal deficits through swift cuts in public spending. However, public deficits can also be brought down by increasing taxation. A slower reduction in fiscal deficits with more emphasis on progressively increasing revenue is both desirable and, arguably, achievable. In many countries, there is scope to increase taxes and to do so in ways that do not impact adversely on poor families. There has been a dramatic shift away from direct (progressive) taxation towards indirect (regressive) taxation in many developed and developing countries. A recent World Institute for Development Economics Research study indicated that the progressivity of tax structures in developing countries is weak and has declined in some countries over time with the introduction of tax reforms (Cornia and Court, 2001). Little income tax is collected in developing countries and there is massive avoidance and evasion. Furthermore, decentralisation, which increases the burden of revenue collection at local level, is regressive at national level by reducing the redistribution from rich to poor areas. Reversing this trend, and increasing efforts to tax incomes, wealth and property progressively, is clearly important. A major constraint to implementing progressive taxes on wealth, such as land and urban property, is political feasibility, although it is unclear whether it is any more politically feasible to reduce expenditure.

50 Rachel Marcus, personal communication.

51 Issues such as resources, quality and context-specificity are key factors which influence the impact and outcomes of early childhood development initiatives (Penn, 2004).

A key issue is that liberalisation is undermining revenue collection of developing country governments, particularly with regard to the equitable financing of state budgets. In addition to revenue losses from tariff reduction (see Section 3.2), tax havens and tax competition - whereby countries compete for foreign investment (also to prevent the outflow of domestic funds) through tax incentives - are limiting revenue sources for social investment. The problem regarding tax competition is in enhancing countries' revenue possibilities while maintaining incentives for private investment. Fitzgerald (2002) argues for international co-operation to achieve this goal through agreements on tax rules within developing regions as demonstrated, for example, by the efforts of the Organisation for Economic Co-operation and Development and EU countries to co-ordinate against tax evasion and tax competition.

Achieving macroeconomic stability

The preceding discussion has illustrated that the goal of macroeconomic policy should be to minimise fluctuations, primarily of output and employment, in order to promote children's well-being. This is particularly important given the increasing international macroeconomic instability in recent decades, as evidenced by the growing number of severe financial crises. Furthermore, preventative measures are more effective than ameliorative policies such as safety nets and targeted programmes, where these are put in place after a crisis.

Some broad policy conclusions can be drawn for promoting macroeconomic stability:

- Governments should avoid unsustainable fiscal deficits which can generate balance of payments problems and very high inflation which damages growth prospects. But at the same time, avoid excessively stringent targets for inflation and fiscal deficits, which not only lead to recession but can also undermine investment, implying slower recovery and lower growth in the medium-term.

- Developing countries should not rely on, or encourage, short-term international capital flows, because they tend to be highly pro-cyclical (ie they accentuate booms and recessions, and therefore destabilise employment and income). Furthermore, free international capital mobility, particularly (but not only) in combination with fixed exchange rates, increases the likelihood of a financial crisis, as demonstrated in most of the recent major crises. There are therefore strong arguments for imposition of capital controls on short-term flows. Where the controls take the form of taxation on capital flows or interest/dividend payments, they may also be a valuable source of public revenue. The issue is how to impose controls without reducing incentives for long-term investment. Chile successfully implemented measures to discourage short-term capital (eg by imposing reserve requirements) while keeping the economy open for foreign direct investment. Malaysia experienced a less severe recession following the East Asian crisis through capital controls by imposing taxes on outflows.

- Finally, donors need to make aid more predictable. Greater aid stability will contribute to macroeconomic stability in developing countries where aid supports a large share of imports and government spending. There are some attempts being made in this regard, eg with respect to the ‘conditionality streamlining initiatives’ of the IMF and World Bank and attempts to co-ordinate donors through sector approaches.

4 Conclusion

Many of the policies that will be most beneficial to children, such as promotion of health and education and empowerment of women, will also be beneficial for the rest of society, although there are some important areas of conflict in the short term. For rapid poverty reduction and improvements in child wellbeing to be achieved on a sustained basis, requires the promotion of poor people's, in particular women's, incomes as the priority strategy. In some cases, equity and long-term efficiency objectives can be supported simultaneously, a notable example being policy to improve the equitable distribution of assets, such as universal access to basic education. Unfortunately, in many instances policy choices entail a trade-off between these objectives.

Where hard choices have to be made, policy-makers must put the needs of children first. This means, prioritising support for positive reforms that will improve the wellbeing of poor families directly. Chronically poor families, in particular, will require assistance to adapt their livelihoods in order to benefit from economic reform and escape poverty. This means enhancing their command of human and physical assets, in addition to insurance schemes to provide economic security, which are vital for calculated risks to be taken. However, where reforms are likely to temporarily raise unemployment - eg while an economy adjusts away from old to new areas of production - key public services, in particular social insurance programmes to protect children, will play a vital role in minimising the adverse effects and prevent families from falling (further) into poverty. This is particularly important where household and community responses to economic reform cause traditional social insurance and support mechanisms to break down. Such measures are unlikely to be compatible with excessively tight public budget constraints or without concerted efforts to maintain or implement social policies in the face of competing claims for scarce resources.

The paper concludes with a summary of the key policies identified to promote children's wellbeing and reduce childhood poverty, in the context of growth, trade reform and macroeconomic management.

Continued focus on policies to promote growth without redistribution will lead to insufficient reduction of childhood poverty and increasing inequality. Evidence suggests that countries with equitable distribution of land and education grow more quickly and convert growth into faster poverty reduction because poor people are the drivers of growth rather than the eventual beneficiaries. However, in some cases land reform has been associated with worsening child outcomes, which suggests land reform may need to be accompanied by appropriate labour-saving technology, so that carers are able to provide children with adequate care, and by direct subsidisation, particularly to increase the education of girls.

Growth policies, particularly important for improving children's wellbeing, include provision of basic services, particularly universal education in low-income countries and, in view of the strong relationship with child wellbeing, promotion of women's status through provision of microcredit; direct cash transfers may be desirable where income constraints restrict women's caring practices.

Trade liberalisation pursued on its own and too rapidly does not benefit the poorest countries in terms of raising growth rates, nor does it benefit the poor in those countries; rather it is likely to leave them trapped in vicious cycles of low-value commodity production and low incomes. In low-income countries, liberalisation should be preceded by public investments, in particular by promoting universal basic education. Social insurance measures are essential to reduce the risks associated with negative impacts for children in the context of liberalisation - particularly in the context of deteriorating traditional social protection arrangements, eg due to population movements, or because economic shocks are community- or economy-wide. Examples include programmes to prevent children dropping out of school, through provision of quality services; nutrition and income transfers to families in high risk areas; opening (more) schools in areas where migration inflows are substantial to protect the education of these families' children; nutrition programmes, particularly in food-buying areas.

Promotion of labour-intensive manufacturing industry is also important, due to the need for poor countries to diversify production away from primary commodities, which are often subject to low and volatile prices. The objective is to achieve industrialisation through selective and temporary import controls and export subsidies, and prevent capture by vested interests.

During macroeconomic crisis, experience has shown that key programmes for children can be maintained even while total public spending is falling, given commitment and appropriate targeting. However, countries with existing social insurance schemes prior to a crisis are better able to respond to it. Improving safety nets coverage is an important area to mitigate the social costs of crises for children.

However, the most effective strategy to promote childhood wellbeing is to minimise risks of crisis, recession and unemployment, and prioritise the goal of full employment. To achieve this, policy-makers in developing countries should:

- avoid unsustainable fiscal deficits which can generate balance of payments problems and very high inflation which damages growth prospects

- at the same time, avoid excessively stringent targets for inflation and fiscal deficits, which not only lead to recession but can also undermine investment, implying slower recovery and lower growth in the medium term

- reduce reliance on short-term international capital flows, which are inherently destabilising, through international agreements. Policy-makers in developed countries can assist by making aid more stable and predictable.

References

Adam, C.S. and Bevan, D.L., 2001, 'PRGF Stock-Taking Exercise on behalf of DFID', Draft, 9 November, Department of Economics, Oxford University

Adams, R.H., 2002, 'Economic Growth, Inequality and Poverty: Findings from a new data set', *World Bank Policy Research Working Paper* 2972, Washington, DC: The World Bank

Addison, T. and Cornia, G.A., 2001, 'Income Distribution Policies for Faster Poverty Reduction', *WIDER Discussion Paper* No. 2001/93, Helsinki: UNU/WIDER

Alesina, A. and Perotti, R., 1996, 'Income Distribution, Political Instability and Investment', *European Economic Review*, 40: 1203-1228

Amsden, A., 1994, 'Why isn't the Whole World Experimenting with the East Asian Model to Develop? Review of The East Asian Miracle', *World Development*, 22 (4): 627-633

Baliamoune, M. N., 2002, 'Assessing the Impact of One Aspect of Globalization on Economic Growth in Africa', *WIDER Discussion Paper* No. 2002/91, Helsinki: UNU/WIDER

Barrientos, A. and DeJong, J., 2004, 'Child Poverty and Cash Transfers', *CHIP Report* No 4, London: Childhood Poverty Research and Policy Centre (CHIP)

Barro, R.J. (1999), 'Inequality, Growth and Investment,' *NBER Working Paper* No. 7038, Cambridge, MA: NBER

Baulch, B. and Hoddinott, J. (eds.), 2000, 'Economic Mobility and Poverty Dynamics in Developing Countries', Special Issue, *Journal of Development Studies,* 36 (6)

Berg, A. and Krueger, A., 2002, 'Lifting All Boats: Why openness helps curb poverty', *Finance and Development*, 39 (3), September

Bhalotra, S. and Heady, C., 2003, 'Child Farm Labor: The wealth paradox', *Discussion Paper* No 03/553, Bristol: Department of Economics, University of Bristol

Black, R. and White, H., 2003, *Targeting Development: Critical perspectives on the Millennium Development Goals*, London: Routledge

Bruno, M. and Easterly, W., 1997, 'Inflation Crises and Long-run Growth', *Journal of Monetary Economics*, 41: 3-26

Cameron, L., 2000, 'The Impact of the Indonesian Financial Crisis on Children: An analysis using the 100 villages data', *Innocenti Working Papers* No 81, Florence: UNICEF

Carter, M. and Maluccio, J., 2003, 'Social Capital and Coping with Economic Shocks: An analysis of stunting of South African children', *World Development*, 31 (7): 1147-1163

Chang, H.J., 2003, 'Kicking Away the Ladder: Infant industry promotion in historical perspective', *Oxford Development Studies*, 31 (1): 21-32

CHIP, 2003, 'Children and Poverty', *CHIP Briefing No 1*, London: Childhood Poverty Research and Policy Centre (CHIP)

Cigno, A., Rosati, F. and Guarcello, L., 2002, 'Globalisation and Child Labour', *World Development*, 30 (9): 1579-1589

Cornia, G. A., 2001, 'Globalisation and Health: Results and options,' *Bulletin of the World Health Organization*, 79 (9)

Cornia, G. A., 2002, 'Harnessing Globalisation for Children: Main findings and policy-programme proposals' in Cornia, Giovanni Andrea (ed.), *Harnessing Globalisation for Children: A Report to UNICEF*, Florence: UNICEF
www.unicef-icdc.org/research/ESP/globalization/index.html [last accessed on 27/05/04]

Cornia, G. A. and Court, J., 2001, 'Inequality, Growth and Poverty in the Era of Liberalization and Globalization: A policy brief', Helsinki: UNU/WIDER

Cornia, G. A., Jolly, R. and Stewart, F. (eds.), 1987, *Adjustment with a Human Face: Protecting the vulnerable and promoting growth*, Oxford: Clarendon Press

Cornia, G.A. and Menchini, L., 2002, 'The Pace and Distribution of Gains in Child Wellbeing over 1980-2000: Some preliminary results' in G.A. Cornia (ed.), *Harnessing Globalisation for Children: A Report to UNICEF*, Florence: UNICEF

Crawford, S., 2000, The Worst Forms of Child Labour: A guide to understanding and using the new convention, London: Department for International Development

Danielson, A., 2001, 'When do the Poor Benefit from Growth and Why?' Background paper to Sida's Poverty Project, Paper presented at the *Poverty and Growth* workshop, Lidingö, 8 August

Datt, G. and Ravallion, M., 2002, 'Is India's Economic Growth Leaving the Poor Behind?', *Journal of Economic Perspectives*, 16: 89-108

Deininger, K. and Squire, L., 1998, 'New Ways of Looking at Old Issues: Inequality and growth', *Journal of Development Economics*, 57: 259-287

Dercon, S. and Hoddinott, J., 2003, 'Health, Shocks and Poverty Persistence', *WIDER Discussion Paper* No. 2003/08, Helsinki: UNU/WIDER

de Vylder, S., 2002, 'Macroeconomic Policy for Children in the Era of Globalisation' in G.A. Cornia (ed.), *Harnessing Globalisation for Children: A Report to UNICEF*, Florence: UNICEF

Dollar, D. and Kraay, A., 2002, 'Growth is Good for the Poor', *Journal of Economic Growth*, 7: 197-225

Easterly, W., 2001, 'The Lost Decades: Developing countries' stagnation in spite of policy reform 1980-98', *Journal of Economic Growth*, 6: 135-157

Easterly, W. and Fischer, S., 1999, 'Inflation and the Poor', *World Bank Policy Research Working Paper* No. 2335, Washington, DC: The World Bank

Edmonds, E. and Pavcnik, N., 2003, 'Does Globalization Increase Child Labor? Evidence from Vietnam', *NBER Working Paper* No. 8760, Cambridge, MA: NBER

Ellis, F., 1998, 'Survey Article: Household strategies and rural livelihood diversification', *Journal of Development Studies*, 35 (1): 1-38

Elson, D., 1995, 'Male Bias in Macro-economics: The case of structural adjustment' in D. Elson (ed.), *Male Bias in the Development Process*, Manchester: Manchester University Press

Falkingham, J., 1999, 'Children in Transition: From security to uncertainty? The impact of economic change on child welfare in Central Asia', Paper presented at the Luxembourg Income Study Conference on *Child Wellbeing in Rich and Transition Countries*, Luxembourg, 30 September - 2 October

Filmer, D. and Pritchett, L., 1999, 'The Impact of Public Spending on Health: Does money matter?' *Social Science and Medicine*, 49: 1309-1323

Fitzgerald, V., 2002, 'International Tax Competition and Capital Mobility', *Oxford Development Studies*, 30 (3): 251-266

Frankel, J. and Romer, D., 1999, 'Does Trade Cause Growth?' *American Economic Review*, 89: 379-399

Griffin, K., 2000, *Studies in Development Strategy and Systemic Transformation*, London: Macmillan

Government of Mongolia/UNDP, 2000, Mongolia Human Development Report, Ulaanbaatar: Government of Mongolia

Glick, P. and Sahn, D., 1998, 'Maternal Labour Supply and Child Nutrition in West Africa', *Oxford Bulletin of Economics and Statistics*, 60 (3): 325-355

Gordon, D., Nandy, S., Pantazis, C., Pemberton, S. and Townsend, P., 2003, *Child Poverty in the Developing World*, Bristol: The Policy Press

Gundlach, E., de Pablo, J.N. and Weisert, N., 2001, 'Education is Good for the Poor: A note on Dollar and Kraay (2000)', Paper presented at the UNU/WIDER Development Conference on *Growth and Poverty*, Helsinki, 25-26 May

Handa, S. and King, D., 2003, 'Adjustment with a Human Face? Evidence from Jamaica', *World Development*, 31 (7): 1125-1145

Hanmer, L. and Booth, D., 2001, 'Pro-Poor Growth: Why do we need it? What does it mean? And what does it imply for policy?' Paper prepared for Sida's *Poverty Project*, August, London: Overseas Development Institute

Hanmer, L., Lensink, R. and White, H., 2002, 'Infant and Child Mortality in Developing Countries: Analysing the data for robust determinants', *Mimeo*, Nottingham: CREDIT, University of Nottingham

Hanmer, L. and Naschold, F., 2000, 'Attaining the International Development Targets: Will growth be enough?' *Development Policy Review*, 18: 11-36

Harper, C., 2002, 'Recent Approaches to Understanding Policy and Action for Eradicating Childhood Poverty', *Journal of International Development*, 14: 1075-1079

Harper, C., Marcus, R. and Moore, K., 2003, 'Enduring Poverty and Conditions of Childhood: Lifecourse and intergenerational poverty transmissions,' *World Development*, 31 (3): 535-554

Howlader and Bhuiyan, 1999, 'Mothers' Health-seeking Behaviour and Infant and Child Mortality in Bangladesh', *Asia-Pacific Population Journal*, 14: 59-75

IFPRI (1998) 'Time Allocation and Child Nutrition', *The Gender Newsletter*, 4 (1)

International Fund for Agricultural Development (IFAD), 2001, *Rural Poverty Report*, Oxford: Oxford University Press

Jayaraman, R. and Lanjouw, P., 1999, 'The Evolution of Poverty and Inequality in Indian Villages', *Mimeo*, Washington, D.C.: The World Bank

Justino, P. and Litchfield, J., 2003, 'Poverty Dynamics in Rural Vietnam: Winners and losers during reform', *Working Paper* 10, Brighton: Poverty Research Unit, University of Sussex

Khattry, B., 2003, 'Trade Liberalization and the Fiscal Squeeze: Implications for public investment', *Development and Change*, 34 (3): 401-424

Killick, T., 2002, 'The "Streamlining" of IMF Conditionality: Aspirations, reality and repercussions', Report for the Department for International Development, London: Department for International Development

Kishor, S. and Parasuraman, S., 1998, 'Mother's Employment and Infant and Child Mortality in India', *National Family Health Survey Subject Reports* Number 8, Mumbai: International Institute for Population Sciences

Kittiprapas, S., Sanderatne, N. and Abeysekera, G., 2002, 'Financial Instability and Child Wellbeing: A comparative analysis of social policy responses in four crisis-affected Asian countries: Thailand, Indonesia, the Republic of Korea and Malaysia' in G.A. Cornia (ed.), *Harnessing Globalisation for Children: A Report to UNICEF*, New York: UNICEF

Krueger, A.O., Schiff, M. and Valdez, A., 1987, 'Agricultural Incentives in Developing Countries: Measuring the effects of sectoral and economywide policies', *The World Bank Economic Review*, 2 (3): 255-271

Lall, S., 1994, 'The East Asian Miracle: Does the bell toll for industrial strategy?' *World Development*, 22: 645-654

Lipton, M., 1977, *Why Poor People Stay Poor: Urban bias in world development*, London: Temple Smith

Littlefield, E., Murduch, J. and Hashemi, S., 2003, 'Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?' *CGAP Focus Note* 24, Consultative Group to Assist the Poor, www.cgap.org/docs/FocusNote_24.html [last accessed 27/05/04]

Lustig, N., 1999, 'Crises and the Poor: Socially responsible macroeconomics', Presidential Address, Fourth Annual Meeting of the Latin American and Caribbean Economic Association, Santiago, Chile

Madise, N. J., Matthews, Z. and Margetts, B. (1999): 'Heterogeneity of Child Nutritional Status Between Households: A comparison of six sub-Saharan countries', *Population Studies*, 53: 331-343

Marcus, R. and Wilkinson, J., 2002, 'Whose Poverty Matters? Vulnerability, social protection and PRSPs', *CHIP Working Paper* No. 1, London: Childhood Poverty Research and Policy Centre (CHIP)

Marcus, R., Wilkinson, J. and Marshall, J., 2002, 'Poverty Reduction Strategy Papers (PRSPs) - Fulfilling their potential for children in poverty?' *Journal of International Development*, 14: 1117-1128

Martin-Prevel, Y., Delpeuch, F., Traissac, P., Massamba, J.P., Adoua-Oyila, G., Coudert, K. and Treche, S., 2000, 'Deterioration in the Nutritional Status of Young Children and their Mothers in Brazzaville, Congo, Following the 1994 Devaluation of the CFA Franc', *Bulletin of the World Health Organization*, 78 (1): 108-118

McCulloch, N. and Baulch, B., 1999, 'Assessing the Poverty Bias of Growth', *IDS Working Paper* 98, Brighton: Institute of Development Studies

McCulloch, N., Winters, A. and Cirera, X., 2001, *Trade and Poverty: A handbook*, London: DFID and Centre for Economic Policy Research

McKay, A. and Lawson, D., 2003, 'Assessing the Extent and Nature of Chronic Poverty in Low Income Countries: Issues and evidence', *World Development*, 31 (3): 425-439

Mehrotra, S. and Delamonica, E., 2002, 'Public Spending for Children: An empirical note', *Journal of International Development*, 14: 1105-1116

Mehrotra, S. and Jolly, R., 1997, *Development with a Human Face: Experiences in social achievement and economic growth*, London: Oxford University Press

Micklewright, J., 2000, 'Macroeconomics and Data on Children', *Innocenti Working Papers, Economic and Social Policy Series* no. 73, Florence: UNICEF

Milanovic, B., 2002a, 'The Ricardian Vice: Why Sala-i-Martin's calculations of world income inequality are wrong', 2nd draft, November, Development Research Group, Washington, DC: The World Bank

Milanovic, B., 2002b, 'Can We Discern The Effect Of Globalization On Income Distribution? Evidence from household budget surveys', *World Bank Policy Research Working Paper* No. 2876, April, Washington, DC: The World Bank

Minujin, A., Vandemoortele, J. and Delamonica, E., 2002, 'Economic Growth, Poverty and Children', *Environment and Urbanisation*, 14 (2): 24-44

Norton, A., Maxwell, S. and Lovell, E., 2000, *Globalisation, Poverty and Children: A concept paper for UNICEF*, London: Overseas Development Institute

O'Malley, K., 2004, *Children and Young People Participating in PRSP Processes: Lessons from Save the Children experience*, London: Save the Children UK

Oxfam, 2002, 'Cultivating Poverty: The impact of US cotton subsidies on Africa', *Briefing Paper* no. 30, September

Oxfam, 2003, *Rigged Rules and Double Standards: Trade, globalisation and the fight against poverty*, Oxfam
http://www.maketradefair.com/assets/english/Report_English.pdf [last accessed 27/05/04]

Penn, H., 2004, 'Childcare and Early Childhood Development Programmes and Policies - their relationship to eradicating child poverty', *CHIP Report* No. 8, London: Save the Children UK

Petras, J. and Leiva, F.I. with Veltmeyer, H. (1994) *Democracy and Poverty in Chile: The limits to electoral politics*, Oxford: Westview Press

Quisumbing, A., 1995, 'Gender Differences in Agricultural Productivity: A survey of empirical evidence', *Discussion Paper 5*, Washington, DC: IFPRI

Quisumbing, A. and Maluccio, J., 1999, 'Intrahousehold Allocation and Gender Relations: New empirical evidence', Policy Research Report on Gender and Development, *Working Paper Series* No. 2, Washington, DC: The World Bank

Ranis, G., 2003, 'Symposium on Infant Industries: A comment,' *Oxford Development Studies*, 31 (1): 33-36

Ranis, G., Stewart, F. and Ramirez, A., 2000, 'Economic Growth and Human Development', *World Development*, 28 (2): 197-219

Ravallion, M., 2000, 'Growth, Inequality and Poverty: Looking beyond averages', *Mimeo*, Washington, DC: The World Bank

Reddy, T. and Pogge, S., 2002, 'How *not* to Count the Poor', Version 4.4, August 15
http://www.columbia.edu/~sr793/count.pdf [last accessed 27/05/04]

Rodriguez, F. and Rodrik, D., 2000, 'Trade Policy and Economic Growth: A skeptic's guide to the cross-national evidence' in B. Bernanke and K. Rogoff (eds), *NBER Macroeconomics Annual 2000*, Cambridge, MA.: MIT Press

Rodrik, D., 2000, 'Comments on "Trade, Growth and Poverty" by D. Dollar and A. Kraay', *Mimeo*, Cambridge, MA: Harvard University

Ruel, M., Levin, C., Armar-Klemesu, M., Maxwell, D. and Morris, S., 1999, 'Good Care Practices Can Mitigate the Negative Effects of Poverty and Low Maternal Schooling on Children's Nutritional Status: Evidence from Accra', *World Development*, 27 (11): 1993-2009

Sachs, J. and Warner, A., 1995, 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity*, 1-118

Sala-i-Martin, X., 1997, 'I Just Ran Two Million Regressions', *American Economic Review*, 87: 178-183

Sala-i-Martin, X., 2002, 'The Disturbing "Rise" of World Income Inequality', *NBER Working Paper* No. 8904, April, Cambridge, MA: NBER

Save the Children UK, 2004, 'Economic Policy Conditionalities', *Briefing Paper* London: Save the Children UK

Smith, L., Ramahrishnan, U., Ndiaye, A., Haddad, L. and Martorell, R., 2003, 'The Importance of Women's Status for Child Nutrition in Developing Countries', *IFPRI Research Report* 13, Washington, DC: IFPRI

Stifel, D., Sahn, D. and Younger, S., 1999, *Inter-Temporal Changes in Welfare: Preliminary results from nine African countries*, Ithaca, NY: Cornell University

Stiglitz, J., 1999, 'Responding to Economic Crises: Policy alternatives for equitable recovery and development', *The Manchester School*, 67 (5): 409-427

Stiglitz, J., 2002, *Globalization and its Discontents*, London: Penguin Books

Swan, M. and Zwi, A., 1997, *Private Practitioners and Public Health: Close the gap or increase the distance?* London: London School of Hygiene and Tropical Medicine

Temple, J., 1999, 'The New Growth Evidence', *Journal of Economic Literature*, 37 (1): 112-156

UNICEF, 1990, *Strategy for Improved Nutrition of Children and Women in Developing Countries. A UNICEF policy review*, New York: UNICEF

UNICEF (2003) *State of the World's Children 2003*, New York: UNICEF

Vandemoortele, J., 2003, 'Are the MDGs feasible?' in R. Black and H. White (eds), *Targeting Development: Critical perspectives on the Millennium Development Goals*, London: Routledge

Wade, R., 2003, 'Reply to John Roberts on Infant Industry Protection', *Oxford Development Studies*, 31 (1): 3-20

Watkins, K., 1998, *Economic Growth with Equity: Lessons from East Asia*, Oxford: Oxfam

White, H., 1999, 'Global Poverty Reduction: Are we heading in the right direction?' *Journal of International Development*, 11: 503-519

White, H., 2001, 'National and International Redistribution as Tools for Poverty Reduction,' *Mimeo,* Brighton: Institute of Development Studies, University of Sussex

White, H., 2002, 'Combining Quantitative and Qualitative Approaches in Poverty Analysis,' *World Development*, 30: 511-522

White, H., 2003, 'Reducing Infant and Child Mortality' in R. Black and H. White (eds), *Targeting Development: Critical perspectives on the Millennium Development Goals*, London: Routledge

White, H. and Anderson, E., 2001, 'Growth Versus Distribution: Does the pattern of growth matter?', *Development Policy Review*, 19 (3): 267-289

White, H. and Dijkstra, G., 2003, *Programme Aid and Development: Beyond conditionality,* London: Routledge

White, H. and van Donge, J.K., 2003, 'Aid in a Rapidly Growing "Off-track" Economy: Vietnam in the nineties' in H. White and G. Dijkstra (eds), *Programme Aid and Development: Beyond conditionality*, London: Routledge

White, H., Leavy, J. and Masters, A., 2001, 'Comparative Perspectives on Child Poverty: A review of poverty measures', *Young Lives Working Paper* No. 1, London: Save the Children UK

White, H. and Masset, E., 2002, 'Child Poverty in Vietnam: Using adult equivalence scales to estimate income-poverty for different age groups', *Young Lives Working Paper* No. 6, London: Save the Children UK

White, H. and Masset, E., 2003, 'The Importance of Household Size and Composition in Constructing Poverty Profiles: An illustration from Vietnam', *Development and Change*, 34 (1): 105-126

Winters, L.A., 2000, 'Trade Liberalisation and Poverty', Poverty Research Unit *Working Paper* No. 7, Brighton: Poverty Research Unit, University of Sussex

Winters, L.A., 2002, 'Trade Liberalisation and Poverty: What are the links?', *World Economy*, 25: 1339-1367

Winters, L. A., McCulloch, N. and McKay, A., 2002, 'Trade Liberalisation and Poverty: The empirical evidence', *CREDIT Working Paper* no 02/22, Nottingham: CREDIT, University of Nottingham.

Wood, A., 1994, *North-South Trade, Employment and Inequality: Changing fortunes in a skill-driven world*, Oxford: Clarendon Press

Wood, A., 1997, 'Openness and Wage Inequality in Developing Countries: The Latin American challenge to the East Asian conventional wisdom', *World Bank Economic Review*, 11 (1): 33-57

Woodward, D., 1992a, *Debt, Adjustment and Poverty in Developing Countries Vol. I: National and international dimensions of debt and adjustment in developing countries*, London: Pinter Publishers for Save the Children Fund

Woodward, D., 1992b, Debt, *Adjustment and Poverty in Developing Countries Vol. II: The impact of debt and adjustment at the household level in developing countries*, London: Pinter Publishers for Save the Children Fund

Woodward, D., 2004, 'Child Focused Economic Policies: Getting there from here', *Internal Discussion Paper*, London: Save the Children UK

World Bank, 2000, *World Development Report 2000/01: Attacking poverty*, Washington: World Bank

World Health Organization (WHO), 2001, *Health in PRSPs: WHO Submission to World Bank/IMF Review of PRSPs*, Geneva: Department of Health and Development, December

Yaqub, S. 2002, 'Poor Children Grow into Poor Adults: Harmful mechanisms or over-deterministic theory?', *Journal of International Development*, 14: 1081-1093

Yarkova, T., Botoeva, G., Reeves, M., Konokbaev, K., Yarkova, N., Marcus, R. and Satybaldieva, E., 2004, 'Childhood Poverty in Kyrgyzstan: Initial literature review', *CHIP Report* No. 1, London: Save the Children (UK)

The Childhood Poverty Research and Policy Centre (CHIP) is a collaborative venture between Save the Children and the Chronic Poverty Research Centre (CPRC). CHIP is working with both researchers and advocates, North and South, to produce research, and influence policy and practice on childhood poverty in the wider context of chronic poverty.

CHIP is funded by DFID, Save the Children and the CPRC.

Directors: Dr Caroline Harper and Professor David Hulme

Children's wellbeing is closely linked to major aspects of economic policy. Focusing on inequality, policies for pro-poor growth, trade policy and trade liberalisation, and issues relating to inflation and fiscal deficits, this paper reviews evidence concerning the impact of key macroeconomic and structural policies on poverty reduction in general and children's wellbeing in particular. Demonstrating that economic growth is not sufficient for poverty reduction, but must be accompanied by redistribution, the paper argues for a combination of growth-oriented and distributional measures. In particular, it calls for pro-child policies, such as such as promotion of women's status and increased public spending on basic services to improve health, nutrition and educational outcomes.

International trade has the potential to generate great improvements in the wellbeing of poor people. However, trade liberalisation implemented on its own and too rapidly has not benefited the poorest countries. The paper therefore recommends that liberalisation be preceded by adequate social protection and pro-poor policies, particularly universal basic education, as well as equitable access to production assets. The paper similarly argues that macroeconomic adjustment of spiralling inflation and unsustainable public sector deficits should be undertaken with the objective of minimising fluctuations in employment, as well as interventions which target children and mothers in order to protect them from adverse effects. In contexts of scarce resources and many competing priorities, donor support will be essential to realise the potential of economic policies for poor families and children.

Published by Childhood Poverty Research and Policy Centre (CHIP)

For information contact:
CHIP, c/o Save the Children, 1 St. John's Lane, London EC1M 4AR
Telphone: 44 (0)207 012 6796
Email: info@childhoodpoverty.org **Web:** www.childhoodpoverty.org

ISBN 1-904922-07-4 First published: 2004

Chronic Poverty
Research Centre

www.chronicpoverty.org

Save the Children