ECONOMIC POLICIES - HOW CAN THEY CONTRIBUTE TO CHILD WELLBEING?

‘An incompetent Ministry of Finance can do more damage to children than an incompetent Ministry of Education’[1]

1. Introduction

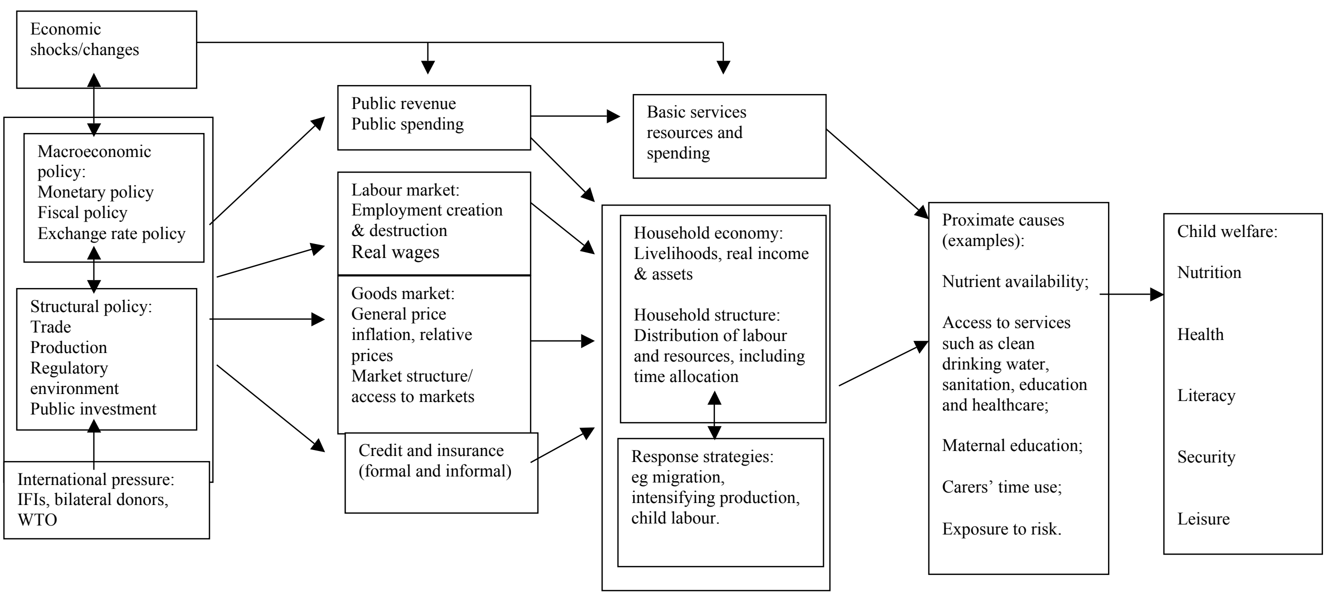
Economic policies matter for child wellbeing. Though, on the surface, economic policies seem far removed from children’s every-day lives, they are the root cause of much of the poverty that children face. Opportunities missed in childhood, such as good nutrition and education can cause irreversible harm to children, and trap them in long-term poverty, while poverty still underpins early death for 10 million children every year[2]. Pro-poor, pro-child economic policies underpin action to tackle poverty among children, and are critical for breaking intergenerational poverty cycles. Thus they play an essential role in meeting the Millennium Development Goals.

Economic policies affect children via two main routes (see Diagram 1):

- their impact on household livelihoods
- their impact on financing key public services essential for child development and wellbeing, such as health and education

This briefing focuses on key current macroeconomic and structural policies that affect child wellbeing through these two routes. Many of these, such as trade liberalisation, and the strength of the link between economic growth and poverty reduction, are controversial and have been the focus of much debate in recent years. The briefing summarises evidence concerning the impacts of growth, trade liberalisation, and measures to control inflation and budget deficits on livelihoods and basic services, and recommends ways in which harmful effects on children can be avoided and positive effects enhanced. It focuses on these policy areas because of their global significance, and their linkages to other areas of economic and social policy. Many other aspects of economic policy are also important for child wellbeing, as outlined in Diagram 1.

Diagram 1: Linking economic policy to children



Sources: elaborated from Winters, L.A., (2000), ‘Trace Liberalisationand Poverty’, Poverty Research Unit *Working Paper* No. 7, Brighton: Poverty Research Unit, University of Sussex; and UNICEF (1990) *Strategy for improved nutrition of children and women in developing countries. A UNICEF policy review*, New York: UNICEF

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Save the Children

How Aggregate Poverty Statistics Can Hide What's Happening to Children

Aggregate poverty statistics can hide changes in the situation of specific groups, including families with children. For example, even where poverty rates are declining overall, households with many children, and few assets, including education, are unlikely to be able to escape from chronic poverty.

Children are generally assumed to benefit if the incomes of their households increase. However, household-level statistics do not reveal what share of any increase is received by children. Nor do they tell us whether overall wellbeing has suffered as a result of efforts to increase income. For example, if increased incomes reflect women working long hours outside the home, infants' nutrition can suffer.

2. Economic Growth, Redistribution and Child Wellbeing – the links

Economic growth and poverty

Most current economic policy aims to promote economic growth, and sees this as fundamental for poverty reduction. The relationship between growth and poverty reduction is controversial - taken together, most research suggests that it is difficult to sustain the reduction of income and non-income poverty without growth. However, the extent to which growth can reduce poverty depends largely on levels of inequality- growth can be three times more effective in reducing poverty where inequality is low than if it is high[3]. Given the dramatic rise in global inequality since the mid-1980s, this implies *substantially greater redistribution* of income and assets is needed to reduce poverty. Three kinds of redistribution may have particularly strong impacts on families and thus children in poverty:

- ***redistribution of productive assets,*** such as land, and of income. Countries with equitable distribution of land and access to education grow faster and convert growth into poverty reduction faster because poor people are the drivers of growth, rather than the eventual beneficiaries. Adequately sized cash transfers can also help poor people build up productive assets.

- ***ensuring pro-poor growth*** - growth will reduce poverty most when it is concentrated in labour-intensive sectors with the potential to employ unskilled or low-skilled people. In many contexts this means agriculture and microenterprise. As growth in these sectors may also increase children's workloads, they may need to be combined with policy and programmatic measures to ensure children's education.

- ***investing in basic services to promote human development,*** in particular health, education and water and sanitation. As well as its intrinsic benefits, and contribution to improved health, education is particularly critical in enabling poor people to benefit from and drive economic growth.

How does growth affect child wellbeing?

The effects of growth on children depend largely on their effects on poor people. So patterns of growth that reduce income poverty among the poorest families should benefit the poorest children. However, growth that is based on increasing workloads among parents of young children, particularly women, can reduce the time available for childcare, and thus affect child wellbeing. Similarly, growth which increases child labour in harmful or exploitative work - because it creates greater demand for unskilled and cheap labour, or is based on households bringing more members into production - should be avoided, largely through enhancing the quality and accessibility of education and regulation of child labour.

The relationship between growth and improvements in non-income aspects of poverty is less clear. Although better off countries tend to have lower infant mortality rates, there is considerable variation and even countries with no growth can improve infant mortality rates if social policies are effective[4]. Where universal basic services are in place, poor people are in a much better position to benefit more and contribute more to economic growth, and the poverty reducing effects of growth are enhanced. Overall, political will, rather than growth is more important for the investment in basic services that underpins improvements in child wellbeing; however, over time, to sustain these gains, and to create a virtuous developmental cycle, growth is necessary.

3. Key Economic Policies and their Implications for Children

a) Trade Liberalisation

Current debates on the potential of trade and trade liberalisation to tackle poverty are highly polarised. Proponents argue that by generating growth, liberal international trade has enormous potential to reduce poverty, and point to low rates of growth and poverty reduction in the pre-liberalisation era. Opponents dispute the evidence concerning trade liberalisation and growth, arguing that benefits, such as enhanced incomes, rarely accrue to poor people in poor countries, are often overstated and based on theory rather than empirical evidence. As with other economic reforms, economies are expected to adjust quickly, leading to medium and long-term gains; however, short-term costs, which are critical for children's development, are often ignored.

Trade liberalisation affects children in poverty largely through its effects on household livelihoods, and through household responses to the opportunities or constraints it creates. The following issues are particularly important with respect to children:

• *effects on food prices* - where trade liberalisation increases the prices farmers receive or their access to markets, they and their families may benefit from higher incomes; where it depresses prices, and incomes, they are likely to face worse poverty. However, net consumers of food - including most of the urban population and many people in rural areas - may be disadvantaged and additional support for children and mothers' nutrition may be needed.

• *effects on employment* - long-term parental unemployment is usually harmful for children's current wellbeing (health, education, nutrition) and their future prospects for escaping poverty. Increased employment opportunities can enhance incomes and can improve social cohesion (for example, where they create work for previously unemployed youth). However, where they require migration this can cause strain on families; where new opportunities target or are principally taken up by young women, this can reduce time available for child care, unless alternative provisions are made.

• *effects on economic insecurity* - greater integration into international markets can increase producers' and consumers' vulnerability to economic shocks, such as price fluctuations. Where prices rise, this can, of course, be positive. However, even temporary reductions in income can affect children's wellbeing severely with potential long-term implications. This underscores the importance of effective social protection to tide vulnerable people over difficult periods.

There is also some evidence that trade liberalisation has reduced government revenues in low-income countries, and that this has, in turn, adversely affected education spending.[5]

Experience suggests that the potential of trade liberalisation to reduce poverty can be increased by:

Before liberalisation

- *Redistributive measures that boost poor people's access* to productive assets, such as land or credit at fair interest rates.

- Investment in *infrastructure that enables poor people to access markets, and enhances their ability to make use of productive assets, including shifting production into new areas* eg through improved water and irrigation programmes, appropriate technology and credit.

- Investment in *human development, particularly education.* This may require social protection mechanisms to ensure that children's access to schooling is maintained or increased, and that nutritional wellbeing is protected. Nicaragua's *Red de Proteccion Social* which maintained children's school enrolments when coffee prices collapsed is a good example.

Without these investments, poor countries are likely to remain trapped in vicious cycles of low-value primary commodity production, low human capital attainment and low growth, and poor people may well be impoverished, rather than benefit from liberalisation.

Liberalisation policies:
Selective and temporary protection of agricultural and manufactured goods - via import controls and export subsidies - can enable poor countries to escape from being trapped in producing and trading low value goods.

Internationally, the following are required:

- *Trading rules that are fair to poor countries,* allow poor countries flexibility in trade policy choices (eg the use of tariffs), and enhance their access to developed country markets.
- *Greater flexibility in donor/ lender policy advice and a reduction in trade-related conditionality* so that low-income countries can set their own priorities, and are not simultaneously advised to produce the same goods, which can depress world commodity prices, and thus undermine potential income gains.
- *Donor support for investments and redistribution* that enable poor people to benefit from the structural changes trade liberalisation can induce in the economy may be needed. For example, to implement credit or land reforms, or support people in a particularly disadvantaged region to take up new opportunities. This is particularly important where other sources of funds for public and private investment are limited.

b) Managing inflation and budget deficits

Ensuring that the macro economy is stable ie that levels of inflation or debt do not hamper growth or cause financial crises continues to be a major element of current economic policy, and is important for preventing worsening poverty. Inflation often hits poor people hard, reducing the resources available for children's wellbeing, though this depends on its level, and the nature of their livelihoods.

However, policies to control inflation have frequently undermined growth and increased poverty by inducing recession, which often hits poor people hardest, since they generally have the least resources to draw on to weather the crisis. Where structural reforms such as trade liberalisation or privatisation have been introduced simultaneously, recession can often be compounded and levels of unemployment and poverty rise as people and the economy adjust to new conditions. If - as has often been the case - public expenditure is cut as part of the stabilisation package, declining incomes can be compounded by reduced basic services - both of which can reduce child wellbeing, as in Central Asia after independence and many African countries in the 1980s and 1990s. Subsequent growth often cannot reverse the damage done in a recession in part because lost human development can have cumulative and long-term effects. For example, children who miss out on schooling often miss their only chance of education. This is likely to undermine overall social and economic development, as well as condemn individual children to poverty.

Although IMF stabilisation programmes usually require that inflation rates are reduced to single digits, there is evidence to suggest that rates of up to 40 per cent are compatible with promoting growth, and are better at securing employment than lower figures.[6] High unemployment is likely to have deeper and longer-lasting social costs than moderate inflation. These include social stability, as well as lost human development.

The risk of financial crises can be exacerbated where international capital movements are not controlled and money can flow very rapidly in or out of a country, particularly where exchange rates are fixed. Such crises have had serious effects on children, including in many cases worsening nutrition and increased school drop-out – both of which can lead to long-term poverty. There are therefore strong arguments for imposing capital controls on short-term financial flows.

Managing fiscal deficits

Keeping fiscal deficits (net public borrowing to finance services, investments, and other elements of government spending) low is another important part of macroeconomic stabilisation. Current policy generally seeks to avoid unsustainable fiscal deficits which can lead to unpayable debts and to very high inflation which can reduce growth. However, if fiscal deficits are used to finance investment (in the 'productive sectors', such as agriculture or industry, or in human development) growth should increase faster than debt.

As with inflation, IMF-set deficit reduction targets often limit governments' room for manoeuvre excessively, severely constraining expenditure on key public services and social protection. Where this compromises service quality or accessibility, child wellbeing can be undermined. Allowing more generous fiscal deficits, as in Indonesia during the late 1990s' financial crisis, can allow governments to spend to generate employment and protect social wellbeing. This can help prevent temporary shocks significantly and permanently increasing poverty. Furthermore, curbing public expenditure is not the only way to create fiscal balance - this can also be achieved by increasing progressive taxation and more effective collection of taxes.

4. Monitoring the Impact of Economic Policy Changes on Children

The effects of particular policy choices vary widely between social and economic contexts. For example, trade liberalisation may affect a girl whose family produce rice for sale on a small-holding in southern Vietnam very differently from her cousin whose family work as casual labourers and street vendors in Ho Chi Minh City, or from the children of their neighbours who recently lost their jobs when the state-owned factory where they worked 'downsized' to become competitive with foreign firms. Ensuring economic policies benefit children and avoid undermining their wellbeing requires understanding the effects of reforms on the following and tailoring policies accordingly:

- *people engaged in different kinds of economic activities* (eg rural wage labourers, farmers, urban street vendors, factory workers etc), and with different asset bases;
- *prices of essential goods* (eg food, clothes, soap etc)
- *household and community responses to opportunities or to growing economic insecurity,* for example, increased migration can enhance incomes through remittances but those left behind (often women, older people and children) may be left with greater workloads, and may be less able to help each other with childcare.
- *public sector revenues and expenditure on key services.*

It also requires differentiating between different groups of children - girls and boys, infants, young children, primary school children and teenagers, and taking into account other important differences such as ethnicity or disability. It is often a combination of these differences and the household's main source of livelihood that determine how policy changes will affect particular groups of children and young people.

Analysis of the potential impact on policy reforms on these issues should be incorporated into Poverty and Social Impact Analyses, so that harmful effects can be identified and avoided and positive effects enhanced. Similarly, poverty monitoring systems, such as those related to Poverty Reduction Strategies, need to ensure they are adequately tracking changes in children's lives and the reasons for those changes.

5. Recommendations

Ensuring growth benefits children

Over time, growth is important for sustaining improvements in human development and child wellbeing and for making the most of synergies between social and economic development; however, substantial improvements in child wellbeing can be made through investment in basic services whether or not an economy is growing.

The following measures should increase the contribution of growth to reducing childhood poverty:

- *A serious commitment to redistribution and enhancing poor people's asset bases.* This requires redistribution of land, income and other productive assets, and investment in human development, particularly education.
- *Ensuring growth is pro-poor* ie based on sectors where poor people are concentrated, enables them to increase returns to their labour. Because these sectors (eg agriculture, small scale industry and services) are those which most often make use of children's labour, measures to tackle child labour, such as improving the quality and accessibility of education, and increased regulation may be needed.
- *Enhancing poor people's employment opportunities at adequate wages*, including opportunities for young people.
- *Avoiding patterns of growth which increase women's workloads* and reduce the time available for the care of young children. Enhancing use of appropriate labour-saving technology can make an important contribution, as can increasing the availability of good quality, low cost child care.

Trade

In different contexts, trade liberalisation can both enhance and undermine child wellbeing. Maximising the positive potential of trade for child wellbeing requires:

- *Redistribution* of productive assets to poor people and *investment* in productive infrastructure and education before liberalisation, so that poor people are well placed to take up new opportunities.
- *Selective protection* of both industrial and agricultural goods via tariff or non-tariff barriers so that poor countries and people can escape from being trapped in low value production.
- *Fairer international trading rules* that enhance poor country exports' access to developed country markets, and which allow poor countries greater flexibility in trade policy.
- *Adequate social protection* so that trade shocks do not undermine incomes or wellbeing. This may encompass insurance-based mechanisms for producers, and measures to secure children's nutritional wellbeing and school attendance, such as cash transfers.

Managing inflation and budget deficits

Two priorities stand out:
Minimising the risks of crisis, recession and unemployment; and ensuring that *strategies for managing financial crises, inflation and fiscal deficits minimise negative effects* on poor families and children.

In practice, this means

- *accepting higher medium-term inflation rates and fiscal deficits*, particularly during recessions - so that expenditure on basic services and social protection can be sustained, and to support recovery through expanding domestic demand.
- *where necessary, controlling short-term capital movements* to avoid financial crises; and
- where *aid* constitutes an important part of the economy, increasing its *predictability* so that it does not undermine macroeconomic stability. This involves donors making longer-term financial commitments to recipient countries, which should be helped by alignment of aid with poverty reduction strategies and Medium Term Expenditure Frameworks.

Complementary economic and social policies

To be most effective in enhancing child wellbeing, the economic policies outlined above need to be complemented with a wider set of measures, including:

- *Investments in improving the accessibility and quality of key basic services* such as health and education.
- *Social protection*, which enhances the wellbeing of the most vulnerable, as well as provides protection against specific shocks.
- *Tackling gender-based inequalities* since the situation of women profoundly influences children's wellbeing and opportunities, and addressing other forms of discrimination and exclusion.
- *Improvements in governance*, including effective legal protection of poor people and their assets, public expenditure management which ensures committed resources reach key services, and enhanced voice for poor people in decision-making.

Ensuring impacts on children inform policy choices

Poverty and Social Impact Analyses provide an important potential opportunity for ensuring that the impacts of key economic policy choices on children are considered and harmful policies avoided. Achieving this requires:

- much greater emphasis on the social, as well as economic implications of proposed reforms
- greater use of qualitative methodologies which enable greater understanding of social dynamics
- commitments among donors and governments to ensuring children benefit from economic reform, both because this is a strategic investment in poverty reduction, and because it is an obligation of governments which have ratified the UN Convention on the Rights of the Child.

Ensuring that poverty monitoring systems (such as those related to PRSPs or the MDGs) link changes in children's lives with the policies underpinning those changes would also provide an evidence base for policy choices that promote rather than undermine child wellbeing.

[1] Stefan De Vylder, 1998, 'Macroeconomics and the Rights of the Child', presentation at Save the Children Sweden seminar 'Macroeconomics and Children's Rights', 2-6 November 1998, Midrand, South Africa.

[2] Chopra, M. and Sanders, D., 2004, *Child Poverty and Health*, CHIP Report 10, London: CHIP

[3] Hanmer L. and Naschold, F., (2001), 'Attaining the International Development Targets: Will growth be enough?' *Development Policy Review*, 18: 11-36

[4] See Mehrotra, S., *Improving Child Wellbeing in Developing Countries. What do we know? What can be done?*, CHIP Report 9, London: CHIP and CHIP Briefing 5 -*Basic Services and Childhood Poverty*.

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

[6] Bruno, M. and Easterly, W (1997), 'Inflation crises and long-run growth', *Journal of Monetary Economics*, 41: 3-26.

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