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World Social Situation 2009

Overview

I. Introduction

1. Although considerable progress has been made in reducing levels of absolute poverty, overall, the world is not on track to meet the Millennium Development Goals of halving levels of extreme poverty by 2015. According to the World Bank, the proportion of people living on less than $1.25 a day in developing countries declined from 1.9 billion to 1.4 billion between 1981 and 2005 at 2005 purchasing power parity. Improvements in overall poverty levels have depended, to a large extent, on growth. Countries or regions that have experienced strong growth during the last two decades have managed to reduce poverty levels, particularly in urban areas. This includes countries such as China and India. It is the success of these countries that has largely driven global poverty trends downward. However, not every region or country has recorded such remarkable progress. The absolute number of poor people has gone up in several countries in sub-Saharan Africa, Latin America, the Middle East and North Africa, as well as in Central Asia.

2. Given these trends, the question arises whether global efforts to reduce poverty should be considered a success or failure. While China and India can be considered success cases, for many developing countries, particularly the least developed countries, this is not the case. Growth in these countries has not translated into poverty reduction while agricultural productivity remained low.

3. The worst financial and economic turmoil since the Great Depression of the 1930s that is afflicting the world threatens to stall the modest progress made so far. The fact that this economic and financial crisis is coming on the heels of the sharp spikes in food and energy prices in 2007-2008 has made the fallout much worse for most developing countries and for poor people everywhere. The World Bank

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estimates that 130-155 million people were pushed into poverty in 2008 alone because of rising food and fuel prices. The United Nations warns that between 73 and 103 million more people would remain poor or fall into poverty in 2009 as a result of the global economic slowdown (see E/2009/73).[1] In addition, the World Food Programme estimates that the number of chronically hungry people in the world will surpass the 1 billion mark in 2009. The International Labour Organization projects 50 million more people will be unemployed in 2009 compared to 2007. Many of these people disproportionately lack access to social protection and credit markets, and hence are least prepared to smooth consumption effectively when faced with shocks of this magnitude. As a result, about half of the world's achievement in poverty reduction in the last 10 years will be wiped out in 2008-2009.

4. The International Monetary Fund is predicting that low-income countries will experience deterioration in their external balance of payments due to lowered demand for their exports as well as reduced in-flows of foreign direct investment and remittances. Domestic budgetary crises may force countries to reduce social spending precisely when the need is greater. As a result, inequality and poverty are likely to rise. The impact of the crises and cuts in public expenditure will fall disproportionately on low-income segments of the population, pushing them into poverty in some cases and deeper into poverty if they are already poor.

5. Against this dismal background, it is worth remembering that at the Millennium Summit held in New York in 2000, world leaders vowed, in the Millennium Declaration, that they would "spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected". To this end, these leaders further resolved to achieve the Millennium Development Goals contained in the Millennium Declaration, the first of which is to halve, by 2015, the proportion of people living on less than one dollar a day and the proportion of people who suffer from hunger.

6. It is clear that the current global crises are reversing whatever progress has been achieved so far towards the internationally agreed development goals, including the Millennium Development Goals, and those developments will likely slow down, if not reverse, the decline in levels of poverty between 1981 and 2005. In some cases, gains made in the other Millennium Development Goals might also be reversed. To compound the situation, the flow of official development assistance (ODA) from industrialized countries to developing countries will also likely slacken. Debt relief efforts are also likely to slow down despite pledges made by leaders of the Group of 20 meeting in London in April 2009 to restore growth and jobs in all countries, including the poorest countries and emerging markets.

7. Consequently, many households now face a wide array of everyday basic concerns — from lack of adequate income to meet basic household consumption needs, such as food and shelter, to the inability to pay for children's schooling. Many of these households are on the brink of medical and financial ruin because many of them have lost employer-provided health insurance schemes. Therefore, if left unattended, crises of this nature are likely to lock poor people and their families

[1] World economic situation and prospects as of mid-2009. Economic and Social Council substantive session of 2009, Geneva, 6-31 July 2009.

in long-term intergenerational poverty traps as they draw down household assets. These crises also undermine prospects for future growth by weakening the human resource base of countries through underinvestments in children's schooling, nutrition and health care.

8. The overview begins by considering global and regional poverty trends over the period 1981-2005 (sect. II).[2] It continues with a description of macroeconomic policies and their effect on growth and poverty reduction (sect. III). This is followed by an examination of some labour market policies and other social policies and their efficacy in reducing poverty (sect. IV). The final section proposes a number of policy recommendations in the fight against poverty (sect. V).

II. Progress in poverty reduction, 1981-2005

9. The depth and severity of extreme income poverty have declined significantly over the last 20 years in the developing world. The number of people living on less than $1.25 a day has declined from a high of 1.9 billion in 1981 to a low of 1.4 billion in 2005. In relative terms, the percentage of people living in extreme poverty dropped from 39.8 per cent to 28.2 per cent during that period.

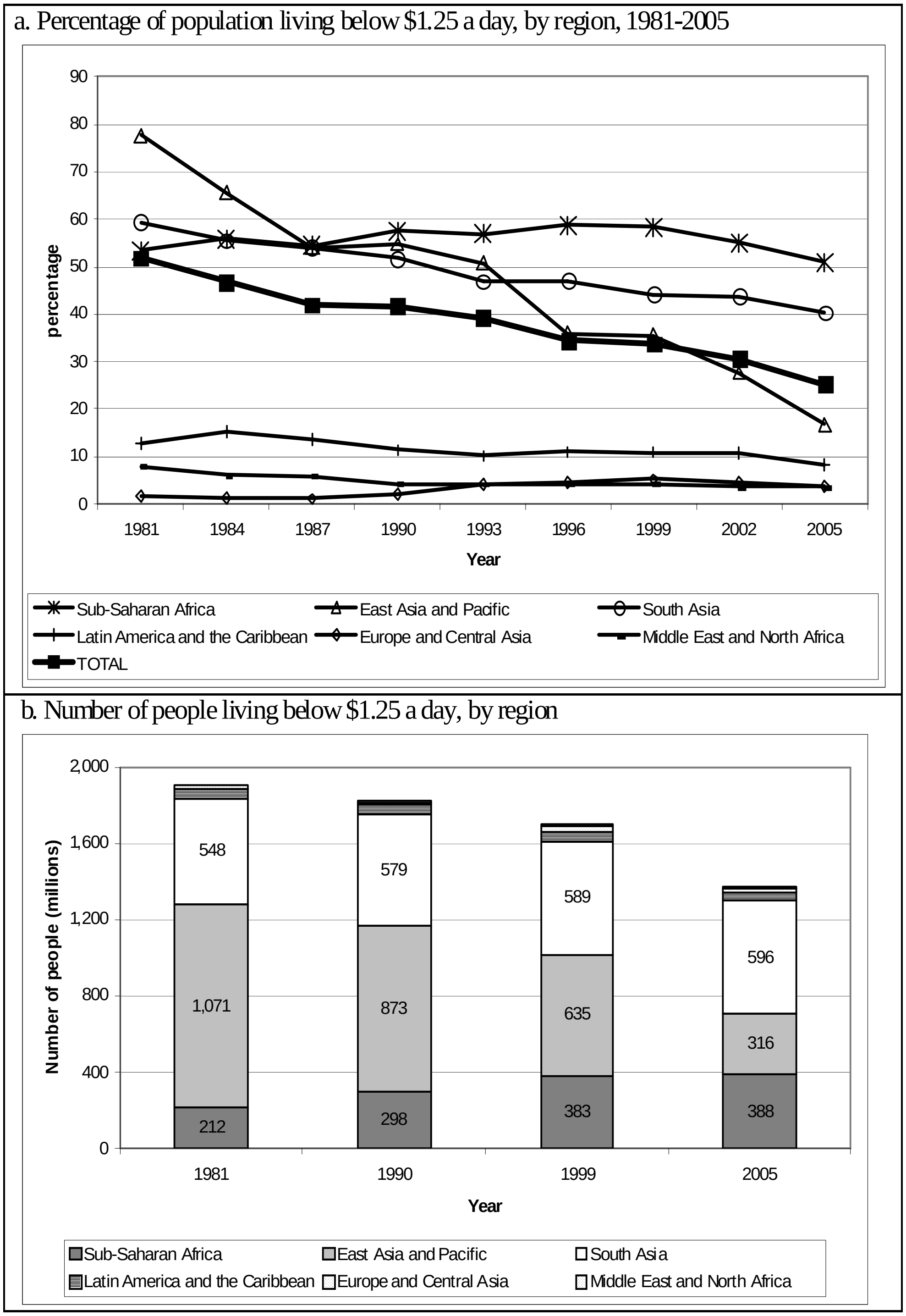
10. The absolute number of people living in extreme poverty fell in spite of the continued growth of the world's population. Despite continued growth in the global population as well as the population of less developed regions, the absolute number of people living below the poverty line was on the decline over the period from 1981-2005.

11. The number of people living on less than $1.25 declined fastest between 1999 and 2005. As shown in figure 1a, poverty declined in all regions between 1981 and 2005 but Eastern Europe and Central Asia, where the percentage of people living on less than $1.25 a day increased from 1.7 per cent to 3.7 per cent between 1981 and 2005. However, poverty rates remain very high in sub-Saharan Africa and South and Western Asia. Therefore, the distribution of poor people within and across regions has changed.

12. While 57 per cent of the world's extreme poor lived in East Asia and the Pacific in 1981, those countries were home to only 23 per cent of all poor in 2005. In contrast, the share of the world's extremely poor people increased in South Asia, from 29 per cent in 1981 to 43 per cent in 2005, and more than doubled in sub-Saharan Africa, from 11 per cent to 28 per cent between 1981 and 2005 (figure 1b).

[2] Section II is based on the revised series of country-level poverty data issued by the World Bank in August 2008 following the findings of the 2005 International Comparison Program. These data are available on PovcalNet, a web-based interactive research tool that can be used to replicate Bank poverty estimates and test alternative assumptions, such as the poverty line or country groupings. Despite the existence of various criticisms, the World Bank's approach remains highly influential, and provides the reigning benchmark for discussions of the extent and trend of poverty globally, including in the United Nations system. Hence, the accuracy of what is known and discussed will continue to rely heavily on the accuracy of the poverty estimates generated by the World Bank.

Figure 1. Global and regional trends in extreme poverty



13. The changing regional picture of the distribution of poverty also reflects broad changes in economic performance. These poverty and population dynamics have occurred in the midst of an expanding global economy, which has resulted, on average, not only in higher per capita incomes in both developed and developing countries, but also in wider income gaps between rich and poor countries.

14. Since the 1960s, gross domestic product (GDP) in low-income countries grew at an average of 4.1 per cent per annum, while the GDP in middle-income and high-income countries grew at averages of 4.2 and 3.2 per cent per annum, respectively.[3] There is little doubt that strong economic growth in East Asia, particularly in China, has been an important factor in the dramatic decrease in poverty. Africa has also experienced significant economic growth in recent years — real GDP growth rate averaged 5.8 per cent in 2007, rising from 5.7 per cent in 2006, 5.3 per cent in 2005 and 5.2 per cent in 2004.[4] This strong rate of economic growth in the half decade offered much hope of reducing the levels of extreme poverty before the current economic crisis dashed such hopes.

15. With regard to the goal of halving poverty by 2015, East Asia and the Pacific is the only region that has already attained the Millennium Development Goals. Other regions on track to meet the goal before this crisis were Eastern Europe and Central Asia, Latin America and the Caribbean and the Middle East and North Africa. In contrast, the ability to halve poverty remains a major concern in South Asia and sub-Saharan Africa.

16. Contrary to trends in developing countries, trends in poverty in the European Union and in other countries of the Organization for Economic Cooperation and Development (OECD) reveal modest changes in overall poverty over the long run. However, poverty levels have increased in the recent past.

17. With the poverty threshold defined as 60 per cent of their country's median income, 72 million (16 per cent) of the European Union's citizens were at risk of falling into poverty in 2006. According to 2001 estimates, more than half of all people in low income households in the European Union lived at a persistent risk of falling into poverty. One in five people in Europe lives in substandard housing and 10 per cent live in households where nobody works.[5] The unemployed are especially prone to poverty, but people in employment are increasingly at risk of poverty as well.

18. Although levels of poverty are generally low in OECD countries, the structure of poverty has shifted and has introduced greater poverty risks among certain groups. Over the past 20 years, poverty has increased most among families with children, single parents and young adults in OECD countries. In 2005, children and young adults had poverty rates about 25 per cent above the average, while they were close to and below that average, respectively, in 1985. Poverty rates are three times higher than the average among households with children; for single-parent families, they exceed 40 per cent in one third of OECD countries. In contrast, poverty among older persons has fallen as a result of public cash benefits and household taxes.[6]

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[3] Poverty in the Middle East and North Africa. Sector Brief (World Bank, 2004).

[4] *Economic Report on Africa 2008: Africa and the Monterrey Consensus: Tracking Performance and Progress* (Addis Ababa, Economic Commission for Africa, 2008).

[5] *Modernizing social protection for greater social justice and economic cohesion: Taking forward the active inclusion of people furthest from the labour market* (Brussels, Commission of the European Community, 2007).

[6] *Growing Unequal? Income distribution and poverty in OECD countries* (OECD, Paris, 2008).

The World Bank's one dollar-a-day poverty line

The dollar-a-day poverty line introduced by the World Bank is the most widely used measure of poverty. The purpose underlying the World Bank initiative is to be able to compare poverty levels and trends over time and across countries on the basis of a common definition. Can this purpose be pursued effectively?

The dollar-a-day poverty line originates from the purchasing power parity exchange rates generated by the International Comparison Project. The purchasing power parities were used first to construct a so-called average poverty line for a group of countries for which the International Comparison Project provided information, and then to convert that common line into national currencies to estimate the incidence of poverty using national distributional data. The project has produced three rounds of estimates: (1) in 1985, when the International Comparison Project covered 22 countries, with the $1 per person per day poverty line; (2) in 2000-01 when the estimates were revised using the purchasing power parity exchange rates of the International Comparison Project 1993 round with a poverty line of $1.08 per person per day; and (3) the new estimates using the International Comparison Project 2005 purchasing power parities with a poverty line raised to $1.25 per person per day. Each subsequent round leads to a re-estimation of the incidence of poverty. According to the last round, 1.4 billion people lived below the international poverty line in 2005 or close to 500 million more than previously estimated.

These estimates have been widely publicized, even though they have many shortcomings. Focusing on the last round, there are several persisting or new problems that can be singled out for criticism.

The main problem concerns the intrinsic worth of the poverty line as a meaningful representation of poverty. There is evidence to suggest that the poverty lines underestimate the actual extent of poverty. In the new round, the new World Bank line of $1.25 per person per day has been based on the average poverty line for the poorest 15 countries. Alternatively, the Asian Development Bank chose to base its estimates on the poverty line of the median country in the sample and arrived at significantly higher numbers of people in poverty for countries such as India. Further, the new World Bank line is not based on the United States rate of inflation. Had United States inflation been taken into account, then the original $1.08 would have become $1.45 for 2005, with obvious implications for the corresponding estimates of the numbers of persons in poverty, and hence for the achievement of the Millennium Development Goal poverty target by 2015.

The prevalence of poverty would be higher, if other aspects of deprivation — beyond income — were taken into account. This calls into serious question the usefulness of approaches to poverty reduction that focus on "poor people" identified by the dollar-a-day measurement. A more encompassing approach should be adopted towards provision of essential social services such as basic health care and primary education, safe water and sanitation, and basic social protection. Also, poverty reduction strategies should be developmentally oriented to promote structural transformations that will generate decent work opportunities for all.

Multidimensional poverty[7]

19. Although income poverty is the most commonly used indicator of well-being, with the $1.00 or $1.25 a day poverty line getting the most attention, there is much more to poverty than income deficiencies. This measure does not capture various other forms of deprivation, including the fulfilment of various social and economic rights. Hence, this measure is now widely seen as an inadequate indicator of actual conditions of life (see Box). The concept of human poverty is wider and many of its elements include poor nutrition and health, low levels of educational attainment, poor or inadequate shelter, lack of voice, lack of access to basic services, such as roads, clinics, and decent employment opportunities, and inadequate property and citizenship rights.

20. Hence, poverty should be viewed as deprivation or lack of basic capabilities rather than merely as low income. This is not to say that more severe cases of deprivation of capabilities are not associated with lack of income. Indeed, it is more likely that individuals experiencing income shortfalls for long periods of time are more likely to lack adequate food, shelter, education and health.

Growing inequality

21. When addressing poverty eradication, growing inequality cannot be ignored. The income gap between the richest and poorest countries has widened significantly since 1980, a period that marked the beginning of the era of rapid globalization. However, rapid per capital income growth in China has tended to lessen inequality between countries. But without China and India, global inequality, measured by Gini coefficient, rose from 47 per cent in 1980 to close to 53 per cent in 2000.[8] Within-country income inequalities also increased in a majority of countries during this period: between the early 1980s and 2005, income inequality rose in 59 out of 114 countries for which data are available and declined in 40 of those countries.[9]

III. The economic environment for poverty reduction

22. Poverty reduction, or lack thereof, always occurs within a macroeconomic context. Economic growth and structural change are necessary for sustained poverty reduction. To enhance the poverty reducing effects of growth and structural change, the economic transformation process must address inequality and the exclusion of

[7] Although multidimensional approaches are increasingly if not widely recognized, there is less agreement on appropriate and adequate measurement as well as policy responses.

[8] Albert Berry and John Serieux, *Riding the Elephants: The Evolution of World Economic Growth and Income Distribution at the End of the Twentieth Century (1980-2000)* (DESA Working Paper No. 27, ST/ESA/2006/DWP/27, September 2006).

[9] World Bank, PovcalNet, accessed 8 June 2008.

poor and disadvantaged groups. For sustained reductions in poverty, the focus should also extend to productivity growth and employment creation. Furthermore, the macroeconomic policy framework often sets the parameters for social policies by defining the policy space for government action.

23. Macroeconomic policies affect economic growth and the distribution of the benefits of such growth. Countries that adopted stabilization measures and structural adjustment programmes experienced declines in average economic growth and increases in inequality and poverty during the 1980s and/or the 1990s, especially in Africa and Latin America.

24. In general, macroeconomic stabilization measures led to declines in public investment and increased the volatility of economic growth and employment. Reductions in public investment in health, education and other social programmes disproportionately affected poor people. Poor people were also affected by increased output volatility, especially since unskilled workers are the first to lose their jobs, and because job recovery lags behind output recovery.

25. In addition, since the private sector did not increase infrastructure investment, as had been expected, several countries experienced significant shortfalls in infrastructure. The agricultural sector suffered most from this inadequacy.

26. Macroeconomic policies should strive for both short-run stability and long-term development. Public investment for building up infrastructure, technological capabilities and human resources is critical for growth and employment generation, and hence, for poverty reduction. Therefore, stabilization needs to be defined more broadly to include stability of the real economy, with reduced fluctuations of output, investment, employment and incomes. This may require larger fiscal deficits and higher rates of inflation than prescribed by conventional macroeconomic policy.

27. Broad-based stabilization policies that focus on the real economy can boost economic growth in several ways. They can respond better to sudden contractions in investment and output due to either external shocks or natural disasters, which can have negative dynamic effects on a country's growth path. In many developing countries, a large number of people remain vulnerable to poverty as they live just above the poverty line. A small shock can push them into poverty. Broad-based stabilization policies which recognize the right to decent employment of every able and willing citizen, and the direct link between jobs and poverty, can prevent increases in poverty.

28. In general, people living in poverty and those at risk of poverty are most vulnerable to fluctuations in income and employment. Broad-based stabilization policies that reduce such fluctuations and recognize the direct link between decent employment and poverty can greatly enhance the effects of economic growth on poverty reduction.

29. Owing to the volatile and generally pro-cyclical nature of aid and the increased vulnerability to shocks, there has to be a renewed commitment to domestic resource mobilization in developing countries. Such mobilization should be counter-cyclical by accumulating fiscal resources during boom periods and using such resources to finance expansionary policies or targeted interventions during downturns. However, most developing countries do not have the resources or the fiscal space to undertake

large-scale counter-cyclical measures — especially since many experienced significant reductions in revenues from trade following its liberalization.

30. Monetary and exchange rate policies should play a supportive role and accommodate the Government's need for development activities and counter-cyclical measures. Confidence of the private sector in macroeconomic policies rests more on the credibility of the Government's commitment to counter-cyclical measures and long-term development, rather than on having a fixed low-inflation target, as the former reduce uncertainty about future profit expectations.

31. In an open developing economy, the exchange rate regime has to be both stable and flexible. The stability of exchange rates is needed to support growth-promoting and poverty-reducing trade and structural change. The demand for flexibility comes from the need to have some degrees of freedom to manage trade and capital account shocks in order to minimize their adverse impacts on income, employment and poverty.

32. In addition to managing exchange rates, monetary authorities should also actively manage the capital account in order to enhance the Government's policy space. This will allow depreciation of the exchange rate and expansionary policies in response to external shocks, and thereby mitigate adverse impacts on poverty. A capital account can be open to equity flows, especially for foreign direct investment, but closed to volatile short-term flows or to excessive external borrowings by the private sector.

33. Besides being counter-cyclical, fiscal policies in developing countries should also be developmental and inclusive. In many developing countries, this will require explicitly addressing the needs of food security and agricultural development through rural banking and other inclusive finance initiatives. Governments should consider reintroducing specialized development banks, especially to promote employment-intensive small- and medium-size enterprises (SMEs) and agriculture. This may involve directed and subsidized credit as well as other pro-active financial policy initiatives.

34. In addition, private commercial banks can be required to comply with requirements to serve rural and other disadvantaged regions, agriculture, SMEs as well as disadvantaged social groups. Governments can consider a range of policy options and instruments to achieve such objectives. Asset-based reserve requirements can be an effective tool for creating incentives for banks to invest in socially productive assets. For example, the central bank could list a set of employment-generating investments; subsequently, lower reserve requirements would apply to loans for such investments than would be required for, say, buying stocks and shares.

35. Central banks can also take steps to create liquidity and risk-sharing institutions for loans to small businesses which show promise of generating employment, but do not have adequate access to the credit market. For example, central banks can provide financial and administrative support for asset-backed securities, which would make loans to small businesses and other employment-intensive activities, bundle these investments, and then sell them as securities on the open market. Furthermore, central banks can open a special discount window facility to offer credit, guarantee or discount facilities to

institutions that on-lend to firms and cooperatives engaged in employment-intensive activities.

36. There has also been an increasing tendency towards privatization of public enterprises. However, privatization has tended to ignore employment conditions and likely job losses, as they affect poverty. There should be adequate protection of employment as well as active labour market programmes in place. Similarly, provision of utilities should remain inclusive regardless of ownership. Public utilities, if privatized, must universally be required to serve disadvantaged groups and areas so as not to exacerbate poverty.

37. Also, the performance of public or state-owned enterprises should not be evaluated solely on the basis of bookkeeping “bottom lines” as they often have other objectives, such as employment creation or social protection. Employment in state-owned enterprises may be a better way of providing social security than social assistance payments from the point of view of self-esteem, learning by doing and reciprocal obligations.

38. Overall, macroeconomic policies must look beyond keeping inflation and fiscal deficits under control. They must aim at stabilizing the real economy and reducing fluctuations of output, investment, employment and income. Fiscal policy can play an important counter-cyclical role, if resources are accumulated during boom periods and used to fund expansionary policies or targeted interventions during downturns. Monetary policies can play a supportive role in accommodating counter-cyclical measures and development activities, especially if they are not limited to keeping inflation low, but include measures such as specialized credit regulation to promote employment and reduce poverty.

IV. Labour market and social policies for poverty reduction

Labour market policies

39. The promotion of full and productive employment was proclaimed as one of the three pillars of social development by the Copenhagen World Summit for Social Development in 1995. Thus, the centrality of productive employment and decent work for all to poverty reduction is widely recognized and accepted.[10]

40. Despite these pronouncements, the creation of productive and decent jobs has failed to receive the prominence it deserves on the development agenda over the past three decades. In fact, erosion of labour standards within economic liberalization programmes was condoned and in many cases promoted on the assumption that it would spur economic growth, and that, in turn, would lead to employment creation, as long as labour markets remain flexible.

41. However, increased labour market flexibility has instead often resulted in insecure work status, employment and income. This trend has been accompanied by increasing informalization of work, even in developed countries. Offshoring and outsourcing have also created a heightened sense of fear and insecurity among

[10] The 2005 World Summit renewed the commitment to taking national and international actions to promote full and productive employment. In 2008, a new employment target under Millennium Development Goal 1, Poverty reduction, was added.

workers in industrial countries. Economic insecurity — and hence vulnerability to poverty — has increased for workers over the years, even during economic booms.

42. The global economic and financial crises have resulted in massive job losses. The ILO 2009 report on global employment trends estimates that, based on growth projections, the number of unemployed persons globally could rise by 20-50 million in 2009 as a result of the economic crisis. The global unemployment rate will rise above 7 per cent, bringing the total number of unemployed to 230 million. Consequently, an estimated 200 million workers could be pushed into extreme poverty,[11] particularly in developing countries where growth has been primarily export-led. Besides posing serious threats to social spending and social stability, given the long lag in employment recovery, this increase will, in all likelihood, erase the progress made over the last decade to reduce extreme poverty through the generation of decent work opportunities for all.

43. The informal economy has always been significant in developing countries, particularly in Latin America and sub-Saharan Africa. The failure of labour market deregulation to accelerate job creation in the formal sector has resulted in this sector accounting for the dominant share of employment in most developing countries. This has created a major challenge for these countries in their efforts to reduce poverty. Jobs in the informal economy are usually of low skill and low productivity, often pay below subsistence wages, have poor working conditions, and typically offer little or no legal or social protection. Although not everyone in the informal economy is poor, there is a high likelihood that the working poor are concentrated in the informal economy in low-productivity activities.

44. Job losses disproportionately affect poor people and those at risk of slipping into poverty. Therefore, active labour-market policies that focus on training programmes and employment services for displaced workers must be integral to a comprehensive social protection system. In the long term, active labour-market policies should aim to develop an education and training system that enhances the productive potential and employability of the workforce.

45. Public works programmes have developed into major policy instruments for employment creation in situations of high or chronic unemployment or in times of crises. These programmes aim to help poor people by providing them with paid employment to rebuild affected areas after a disaster or to create needed infrastructure that, in turn, enhances their welfare. The majority of these programmes are temporary, but a few offer employment-guarantee schemes that secure some minimum employment on an ongoing basis.

46. These programmes have enhanced the incomes of participants, while maintaining, improving or creating valuable infrastructure. However, few of these programmes provide sustainable employment opportunities. They rarely stimulate job-creation in the private sector or offer long-term solutions to unemployment or underemployment.

47. However, more universal and permanent employment guarantee schemes can be designed to avoid some of the problems. For example, a universal employment-guarantee scheme can provide full-time work (and part-time work if

[11] ILO, Report of the Director-General, *Tackling the global jobs crisis: Recovery through decent work policies* (International Labour Conference, 98th session 2009, Report I(A)).

desired), with no time limits, and paying a uniform wage to all workers.[12] A minimum wage becomes effective only in combination with a job guarantee. Therefore, the wage paid by employment-guarantee schemes can become the effective minimum or social wage.

48. Finally, such programmes could be added to existing social protection provisions to give workers who have lost their jobs more choices. By joining the programme, these workers can maintain their self-esteem and skill, and avoid joining the rank of the long-term unemployed. Thus, when the economy recovers, their access to better jobs becomes easier and the private sector has a pool of skilled workers ready for employment, without having to pay for retraining. The public sector benefits, too, as they bring in skills and experience from their earlier private sector jobs. This kind of programme for formal sector workers can be funded by levies (like unemployment insurance contributions) payable during boom time.

Social policies

49. Social protection refers to a group of policy measures and programmes that reduce poverty and vulnerability. They seek to protect society's more vulnerable members against livelihood shocks and risks, enhance the social status and rights of the marginalized, protect workers, and reduce people's exposure to risks associated with ill health, disability, old age or unemployment.

50. Social insurance and pension schemes seek to enable the working age population as well as older persons to smooth consumption over their lifetimes. Social insurance programmes can be either employment-based or universal. In developing countries, the proportion of poor households covered by employment-based social insurance is usually small, reflecting the dominance of informal labour markets. These programmes usually require beneficiaries to make at least partial contributions and pool risk.

51. Investments in education can play a key role in poverty reduction owing to its growth-promoting effects, although complementary demand-side policies are needed to ensure employment creation in order to realize the productivity-enhancing potential of education.

52. Progress by developing countries in the last decade on many education indicators has been impressive. However, serious gaps remain. There are important disparities in access to education between boys and girls, between children in rich and poor households and in urban and rural areas, among others. A significant number of children are still out of school and, in many countries the quality of education is still poor. Governments have so far failed to address persistent inequalities in education.

53. Improving the educational attainment of girls and women, in particular, can reduce poverty in many ways. Improvements in education among women typically increase their labour force participation rates and earnings. Women's education also confers intergenerational education benefits, since it is associated with lower levels of child and maternal mortality, and with higher levels of education among children. Female education reduces fertility rates, which in turn can increase labour force

[12] Hyman Minsky articulated such a proposal in the mid-1960s and mid-1980s. Hyman P. Minsky, *Stabilizing an Unstable Economy* (New Haven, CT, Yale University Press, 1986).

participation and earnings. The positive relationship between female education and earnings is, of course, contingent on labour market opportunities. In both developed and developing countries, labour market discrimination means that better education does not always translate into higher earnings for women.

54. Improvements in health have a positive effect on economic development as well. Recognizing the importance of investing in health, Governments and the private sector established a Global Fund to Fight AIDS, Tuberculosis and Malaria in 2002.

55. Increasing fiscal allocations for health will not be sufficient to help poor people improve their health and meet the internationally agreed health goals. Most health spending disproportionately benefits the better-off in society, and inequality in health has increased. Therefore, public health services are a key aspect of government services affecting the health of poor people. The critical issue will be how best to ensure that these services actually reach them.

56. Social integration policies also play an important role in poverty eradication. Various social groups, including women, older persons, persons with disabilities, and indigenous people, suffer multiple disadvantages and are generally more likely to suffer exclusion and live in poverty. Long-term exclusion may lead to chronic poverty. Hence, policies aiming at counteracting and preventing exclusion should be pursued at all levels. Socially transformative policies are needed so that the socially excluded and marginalized become part of the society they live in, and intergenerational poverty and exclusion are no longer prevalent.

57. Discrimination, often firmly embedded in social structures and cultural norms, lies at the core of deprivation. Thus, anti-discrimination policies and anti-poverty efforts are complementary and essential for successful social integration.

58. Legal recognition of rights does not necessarily lead to a reduction in inequalities in access to services. The promotion of equality of rights and opportunities for disadvantaged groups requires redistribution of resources to reduce disparities and advance both social inclusion and poverty reduction efforts. Carefully designed redistribution policies, promoting equal access to opportunities and improving income distribution are important for socially inclusive policies. Progressive taxation and increased social spending also address inequality.

59. Ensuring access to productive assets (land and capital) for excluded groups may help to combat poverty and promote inclusion. For instance, land reforms and land titling, particularly in agrarian societies, can benefit women, indigenous peoples and other minority groups.

60. The importance of participation for poverty reduction and social integration policies is based on the basic premise that people should be able to influence decisions that affect their lives. Poverty itself is a major barrier to participation, yet without promoting participation and inclusion, poverty reduction policies may simply never be properly implemented. Hence, it is important to remove barriers to participation and to promote active participation. Social inclusion is impossible to achieve without a high degree of political inclusion which entails democratic participation.

Poverty reduction programmes

61. As poverty levels have remained constant or increased despite economic growth in many countries, it has become clear that growth by itself does not reduce poverty, and macroeconomic recovery does not necessarily translate into significant social improvement. Consequently, Governments and development agencies have created or supported programmes to reduce poverty. Various poverty reduction programmes can now be found in most developing countries. They include such instruments as microfinance, conditional cash transfers and property rights.

62. The Global Microcredit Summit 2006 pledged to provide microfinance to 175 million poor households by 2015. Governments and development agencies support expanding microfinance institutions. Microfinance institutions often specifically target women, who account for the vast majority of clients. Traditional networks and peer reviews ensure creditworthiness, and loans are secured through joint liability.

63. However, microfinance alone cannot eradicate poverty. There is a need to complement microfinance to reduce poverty. Some microfinance institutions and non-governmental organizations are, therefore, offering training to build management and entrepreneurial skills. Furthermore, without a supportive macroeconomic, trade and industry policy framework, micro-enterprises will remain very small, with few backward or forward linkages or employment creation possibilities.

64. Still, microfinance has helped poor people maintain their consumption level during periods of cyclical downturns or unexpected crises. This positive role of microfinance should not be dismissed altogether. If consumption or expenditure smoothing means parents can send their children to school, buy essential medications, and maintain the nutritional intake of their children, then microfinance is likely to have positive long-term impacts on productivity and hence, for poverty reduction.

65. Conditional cash transfers have recently become a widely used form of social protection in developing countries. Conditional cash transfers are cash grants provided to poor and disadvantaged people on condition that they make specific commitments, such as sending their children to school and having regular health check-ups. Conditional cash transfers are therefore often designed as a mix of cash transfers and service provision, emphasizing strong linkages with the labour market and intra-household responsibilities.

66. A contentious issue relating to conditional cash transfers is the desirability of imposing conditions. Conditioning transfers is supposed to induce desirable changes in behaviour. Conditioning can also work to overcome information asymmetries. For instance, Governments may better understand the benefits of immunization, and a conditional cash transfer programme that requires immunization can overcome this asymmetry. Conditional cash transfers may also strengthen the bargaining position of women, whose preferences are better aligned with those of the Government, but who may lack bargaining power within the household. Conditions also help make the transfers more acceptable to the average taxpayer.

67. However, there is a significant cost in monitoring behaviour, and many developing countries lack the administrative capacity to monitor adequately. Furthermore, some poor families may find it difficult to meet conditions owing to

the lack of easily accessible health services or schools. Generally, conditional cash transfers target households only with school-age children, which means that impoverished households without school-age children will be excluded.

68. Given some of the problems associated with conditionality and targeting, the question of whether direct cash grants to the poor should be universal and/or unconditional has been raised. Unconditional cash grants are increasingly used to limit acute poverty and hardship in emergency situations. These programmes are typically used together with aid in kind, such as food aid, but go beyond the immediate consumption goals of commodity transfers and aim to enhance livelihoods and longer-term incomes.

69. In case of emergency, it is possible to have universal cash transfer schemes such as a basic income grant with no conditions. Critics of such programmes argue that a basic income grant reduces total employment in an economy by reducing labour supply and the willingness to work by raising the acceptable wage floor. However, in developing countries, the availability of basic income grants may increase both productivity and labour demand. This can occur, for example, if income grants reduce the need for workers to send remittances to their families, thus increasing the wage available for their own consumption, or for skill upgrading.

70. There are strong links between poverty and lack of property, as people living in poverty not only lack income, but are also without the assets needed to generate income. Land is a critical asset, particularly for the rural poor, as it provides a means of livelihood, and the landless are often among the world's poorest. There are also indications that land ownership increases investment in the education of children, and hence can help reduce intergenerational poverty.

71. Land can also be used as collateral for loans for investment, or sold to raise capital to invest in an income-generating activity. This has led to campaigns to title land to urban slum-dwellers living on land not owned by them.

72. Yet, formalizing land titles suffers from similar limitations as microfinance. In the absence of an expanding economy, new land-owners will not be able to expand their capabilities. They often lack education and entrepreneurial skills to undertake business activities with borrowed money. They are risk-averse and more worried about failing, and hence losing their asset (land) used as collateral. Poverty itself is a barrier to risk-taking and enterprise.

73. Overall, in several developing countries, the per capita levels of social sector funding still remain below the levels attained in the 1970s. Both quality and, to a lesser extent, coverage have not improved at the predicted pace, and, in some countries, the already inadequate social infrastructure in areas such as health and education has further deteriorated. A main conclusion for future efforts is that, notwithstanding the benefits of improving the efficiency of social policy, a higher political weight should be given to the consequences of reducing the public financing of the social sector.

V. Policy recommendations

74. The challenges ahead for poverty reduction are numerous and difficult, and are made more intense by the global economic crisis. It is imperative that the gravity of this crisis leads to a serious rethinking of policy approaches that have dominated the

discourse on growth and poverty up to now. Alternative analysis that prioritize the need for structural transformation that brings about the sustained growth of real output, employment and incomes and promotes inclusive development which benefits poor people must be advanced and expanded upon.

75. As the line between poor and non-poor people is becoming less clear and less significant, the economic crisis is a reminder that poverty is not an attribute of a set group of individuals but rather a situation that everyone is at risk to experience at some point in their lives. Rather than waiting for economic recovery before focusing attention on poor people, it would be wise to formulate policies and allocate resources to ensure the basic well-being of all individuals, those already experiencing poverty and those at risk of experiencing it, as a strategy to stimulate recovery. Ensuring that the world's people are healthy, educated, and well housed and fed is essential so that they can be productive and contribute to making the economic recovery a reality. Therefore, the approach to poverty reduction should be developmental and holistic, integrating economic and social policies to achieve people-centred development outcomes.

76. Macroeconomic policies must look beyond keeping inflation and fiscal deficits under control. They must aim at stabilizing the real economy and reducing fluctuations of output, investment, employment and income. They should strive for both short-run stability and long-term development. Fiscal as well as monetary policies can play an important counter-cyclical role to support public investment for building infrastructure, technological capabilities and human resources. Such investment is critical for growth and productive employment generation, and hence, for poverty reduction.

77. Social policy should act on the structural determinants of wealth and income distribution and poverty, especially education and employment. These factors are the key to breaking the intergenerational transmission of inequality and poverty. The scope of social policy is multiple. Without detracting from other efforts on the social front, an equality-promoting emphasis should be placed on growth strategy, programmes and policies that affect human resources, employment and social protection.

78. Social policy should not be seen as a set of ameliorative measures to correct for market and institutional failures and to temporarily manage household risk of the poor. Instead, it should involve the provision of basic needs and public goods which remains primarily the responsibility of the State. Inclusive development cannot be achieved when this provision is inadequate, uncoordinated and piecemeal.

79. Labour income is the main source of revenue for poor people. To that extent, human resource development, job creation and improvement of the quality of employment are key issues for sustainable poverty alleviation.

80. Experience in many countries shows that decent work is central to inclusive growth that leads to poverty reduction. The promotion of full and productive employment and decent work for all should be an objective of macroeconomic policy. This will help to ensure consistency and coherence between economic and social policies. It will also lead to more equitable distribution of the benefits of economic growth, thus reducing both inequality and poverty.

81. Therefore, an employment strategy aimed at promoting decent work under conditions of equality, security and dignity should be a fundamental component of

any development strategy, and must be oriented to include employment creation in macroeconomic policy. Such a strategy also requires employment impact analysis as a basic criterion for macroeconomic policy and for policy decisions adopted in other areas. Furthermore, it calls for adopting specific measures to incorporate the informal sector in social protection programmes and for establishing incentive structures that promote employment creation by directing investment to sectors that are productive and labour-intensive, with a focus on promoting small- and medium-sized enterprises.

82. There has also been an increasing tendency towards privatization of public enterprises. However, privatization must not ignore employment conditions and likely job losses, as they affect poverty, especially of the working poor. There should be adequate protection of employment conditions as well as active labour market programmes in place. Similarly, provision of utilities must remain inclusive regardless of ownership. Public utilities, if privatized, must be required to ensure adequate service provisions to disadvantaged groups and areas.

83. The development of human resources is a key component of a comprehensive development strategy, since it has a simultaneous impact on inequality, poverty reduction, growth and social and political integration. Public social expenditures are critical in supporting investment in human resources. Public social expenditures should be safeguarded, even increased in the current crisis to protect investment in human resources. This should also be incorporated into stimulus packages and international support to low-income developing countries.

84. In particular, policymakers should seek to ensure channelling enough funding to promote development of human resources, especially in education and health. To the extent that there is a correlation between prior disparities in these areas and current income disparities, both within and between countries, developing economies should make it a priority to increase the contribution of public resources to health and education, coupled with efforts to improve quality of services.

85. A different, but no less important dimension of human resources development is that of training programmes. The need for competitiveness in a global economy, along with the rapid development of technological innovation, calls for quick and significant changes in manpower training. Therefore, a large-scale effort should be made to provide individuals with the up-to-date knowledge and skills they need in order to be competitive on the labour market.

86. Improved social protection systems are also key elements of an integrated approach to eradicating poverty and improving equity. These systems should provide universal coverage and cover basic risks, particularly health, ageing and unemployment, in an integral package.

87. The development of affordable and appropriate social protection institutions is essential to reassure disadvantaged groups that the negative consequences of economic reforms and downswings in activity will not fall disproportionately on them. Such social protection systems should be designed on a permanent institutional basis, so as to be able to respond quickly when a crisis strikes. They should not be viewed, however, as a substitute for basic social policy. Their financing during crises should thus not crowd out spending on human resources or on more permanent schemes of social protection. Moreover, with time, they should evolve into elements of a more permanent social security system.

88. Nonetheless, the usual way in which the notion of social protection is applied falls very much in the category of “add-ons” to macroeconomic policies. Thus, social protection measures and targeted transfer programmes are seen as important means of softening the adverse short-term effects of crises and ensuring political support for reforms designed to achieve macroeconomic stability and remove impediments to long-term growth. Such views of social policy as an appendix to macroeconomic policy are inconsistent with the integrated policy framework that should be the basis for well-designed social and economic strategies.

89. Basic social protection for all is a must in an era of increased economic insecurity due to globalization and accompanying informalization and casualization trends in the labour market. The current global crises and the impact on workers in developed and developing countries alike further underscores the importance of providing a social protection floor for poor people as well as the non-poor. For people living in poverty, some basic social protection extended to them will help to avoid falling deeper into poverty; for the non-poor, this will reduce their vulnerability to poverty.

90. Extending basic social protection to all should be a component of all stimulus packages. In the short-term, benefits will allow people who need assistance the most to support their consumption, generating much-needed demand during economic recession; in the long run, social investment in human resources (nutrition, health and education) will strengthen future growth.

91. With rising inequality, promoting social integration will become more elusive. Social cohesion and solidarity are fundamental conditions of development and social progress, and efforts to develop and reinforce institutions and mechanisms encouraging social integration must be sustained. A well-educated, healthy, suitably employed, socially protected citizenry contributes to the social cohesion of a country and imparts dynamism to all aspects of life and culture. By promoting inclusion and reducing deprivation, social development strengthens democratic institutions and processes, makes social and economic relations more harmonious, and provides a firm foundation for achieving long-term development and prosperity.

92. Finally, reducing poverty requires efforts not only at the national level but also an explicit commitment of the international community, in terms of accepting, promoting and demanding that priority be given to more effective social investment efforts to promote solidarity and equity. In the case of the richest countries, such commitment should also be reflected in the channelling of aid, in accordance with the internationally agreed target of 0.7 per cent of gross national product, and in opening up markets to products from developing countries.