



Chapter III

Incomes, poverty and well-being

The effects of the widespread job losses described in the preceding chapter have been hard on individuals and households, particularly in developing countries where there are no or scant social protection measures. The severe impacts of the global financial and economic crisis began to be felt at a time when budgets had already been squeezed by the earlier food and energy price crises. As a result, the progress that many countries had made in reducing poverty has been slowed and, in some cases, even reversed.

Greater social unrest and manifestations of deviance, alienation and frustration, ranging from domestic violence to street protests, may have risen as a result of the crisis, further threatening social cohesion. The crisis has also adversely affected health and education. Spending in these areas—at the household, community, national and international levels—is under threat and has been reduced in numerous countries. Many observers have linked recent political and social unrest in the Middle East and North Africa to higher food prices and youth unemployment.

This chapter focuses on assessing the impact of the crisis on multidimensional poverty, including health, education, income, social conflicts and social cohesion. However, the ability to monitor and assess the impact of the crisis on poverty is complicated by the unprecedented nature and sequencing of various aspects of the crisis. Much of the impact of the financial and economic crisis on multidimensional poverty will not be felt for some time in view of the time lag between the start of the crisis and the manifestation of its full impacts.

The availability and quality of relevant data are also issues. It may be years before representative sample survey data are available that would enable more precise assessments to be undertaken concerning the consequences of the crisis for health, education and poverty. Household surveys that have recently become available suggest, for example, that official data on school enrolment may underestimate the out-of-school population by as much as 30 per cent. Although the weaknesses of income poverty measures have been well established,²² and despite data limitations, it remains important to assess the impact of the crisis on poverty based on the information available.

²² For a detailed discussion of poverty measurement, see United Nations (2010a, chap. II).

The context of the crisis

Income poverty

Prior to the recent crisis many countries had already made large strides in reducing extreme poverty. Worldwide, the incidence of poverty had fallen 40 per cent since 1990, and the first target of the Millennium Development Goals, that is, halving poverty by 2015, is generally expected to be met in many regions and countries. For example, East Asia has already halved poverty, in large part due to the rapid economic growth in China.

However, the observed global improvement in poverty conceals important divergent regional trends. Specifically, sub-Saharan Africa, West Asia and parts of Eastern Europe and Central Asia are not expected to attain the poverty target of the Goals; in fact, many countries in these regions have experienced increases in poverty, although the overall rate of poverty remains relatively low. Sub-Saharan Africa has the highest poverty rate of all the regions. Although poverty reduction in Africa has lagged behind other regions, poverty levels in the region have stopped rising and begun declining since the 1990s. However, after the crisis started, many living in extreme poverty have slipped further below the poverty line, and will now find it even harder to escape poverty. It has been observed that, in general, the higher the poverty rate, the less responsive that rate is to economic growth and the slower the decline in poverty (United Nations, 2010d).

Health

Deprivations in well-being in terms of health status and access to health care are key dimensions of poverty. Poor health can be both a cause and an effect of poverty: people living in poverty are less likely to have access to adequate health care and are more likely to suffer from illnesses and to die at younger ages than those living above the poverty line. Vulnerable families can be pushed into poverty when a family member becomes ill and requires costly medication and treatment. Prior to the crisis, considerable progress was being made towards attaining the health-related targets²³ of the Millennium Development Goals, but these targets continue to pose a formidable challenge and are not expected to be met in many countries.

There is mixed evidence on progress attained in reducing maternal mortality.²⁴ Progress towards reducing births among adolescents has slowed, and even been reversed in some cases, but the urban to rural gap is growing in many countries.

²³ The Goals directly concerned with health are Goal 4 (reduce child mortality), Goal 5 (improve maternal health), and Goal 6 (combat HIV/AIDS, malaria and other diseases).

²⁴ The maternal mortality ratio is the number of deaths among women due to pregnancy and childbirth complications per 100,000 live births in a given year. Official statistics on maternal mortality are available from: <http://mdgs.un.org>.

Progress towards satisfying women's unmet need for contraception, an important means of reducing unwanted births and maternal mortality, has slowed in recent years. Aid for family planning as a percentage of total health aid declined from 8.2 to 3.2 per cent between 2000 and 2009 (United Nations, 2010d).

The number of child deaths has dropped by 28 per cent since 1990. However, the rate of decline is too slow to meet the target under Goal 4: reduce the under-five mortality rate by two thirds between 1990 and 2015. Only 10 of 67 countries with high child mortality (defined as 40 or more deaths per 1,000 births) are on track to meet the agreed target. Half of all deaths of children under age 5 in 2008 occurred in sub-Saharan Africa. Since most child deaths are preventable with simple, low-cost interventions, such as antibiotics, immunization, oral rehydration therapy and insecticide-treated mosquito nets, persistently high child mortality is unacceptable. New vaccines for pneumonia and rotaviral diarrhoea could greatly reduce child mortality (United Nations, 2010d). However, the economic crisis is expected to interrupt progress towards increased child survival rates, as expenditure on research on vaccines and health care is cut.

Access to safe drinking water and sanitation is vital for child survival and more positive health outcomes. Between 1990 and 2006, more than 1.6 billion people gained access to improved water sources. Sanitation has proven more challenging, however, with almost half the population of developing countries lacking adequate sanitation facilities. It is likely that the crisis may have affected progress in these areas as well.

The human immunodeficiency virus (HIV) and AIDS remain the world's leading cause of disease and death. The number of new HIV infections has fallen from a peak of 3.5 million in 1996 to 2 million in 2008 but, despite this success, the rate of increase of new infections outstrips the ability of health agencies to provide those infected with life-prolonging and life-improving antiretroviral therapy. In the case of malaria, improved access to insecticide-treated bednets and antimalarial medications has helped to lower the incidence of the disease but, as with other health interventions, access is unequally distributed across income groups. For example, in sub-Saharan Africa, 46 per cent of children in the richest wealth quintile who had a fever received antimalarial medication as compared with only 27 per cent of febrile children in the poorest quintile who received antimalarial medication (United Nations, 2010d).

Hunger and undernutrition contribute to a number of negative health consequences. More than one third of child deaths are attributable to malnutrition. The number of people suffering from hunger was on the rise, even before the onset of the food and economic crises. In 2009, the economic crisis increased the number of food insecure persons by about 9 per cent in 2009, over and above the pre-crisis projected baseline increase of 2 per cent for 2009 (Food and Agriculture Organization of the United Nations, 2009a). In other words, the number of

Box III.1

Inequality and health: the case of maternal mortality

New estimates of maternal mortality suggest a significant decline in the maternal mortality ratio of 34 per cent since 1990, although maternal deaths remained unacceptably high at 358,000 in 2008 (World Health Organization, 2010). The rate of decline is well below that needed to achieve MDG 5, i.e. to reduce the maternal mortality ratio by three quarters by the target year of 2015. Increases in the share of births attended by skilled health personnel bode well for improvements in maternal survival. Between 1990 and 2008, the proportion of women in developing countries who received skilled assistance during delivery rose from 53 to 63 per cent, but this figure is still far too low.

The global distribution of maternal deaths is highly skewed: developing countries account for 99 per cent of maternal deaths (355,000). Maternal health is highly sensitive to inequality within countries, a situation which the crisis has worsened, with poor women being much less likely to receive appropriate care than better-off women. In South Asia, the best-off women are five times more likely than the poorest to be attended by trained health-care workers during delivery (United Nations, 2010d). In sub-Saharan Africa, the best-off are three times more likely to have received such care.

undernourished people in the world rose to 1.02 billion during 2009, the highest level of chronically hungry people since 1970, even though international food commodity prices had declined from their earlier peaks.²⁵

Education

Education is an asset that individuals can use to increase their employment opportunities and income. However, there is a mutually-reinforcing relationship between education and poverty: lack of education increases the risk of poverty, and living in poverty lowers educational prospects. Before the crisis, significant improvements had been made towards achieving universal primary education, and enrolment in primary education had reached 89 per cent in the developing world. Gender parity in enrolment had also been improving: the share of girls out of school declined from 57 to 53 per cent worldwide between 1998 and 2008, while the number of children out of school fell from 105 million in 1999 to 72 million in 2007. In South and West Asia, the out-of-school population was more than halved, and fell by more than a quarter in sub-Saharan Africa.

Recent progress in education has been driven by education policies, economic growth and poverty reduction, all of which were exacerbated by the crisis. As pointed out in the previous chapter, slowing growth is expected to trap several million more people in poverty and to shrink national budgets, putting pressure on budgets for education. A shortage of teachers has proven to be a barrier to achieving universal primary enrolment, particularly in sub-Saharan Africa, where

²⁵ The number of hungry people worldwide dropped marginally to 925 million in 2010.

twice the number of existing teachers is needed to staff classrooms and to enable the region to achieve the Goal.

Impact of crises on social indicators

Evidence from previous crises

Volatility in economic growth is detrimental to human development. It has been observed that social indicators decline more rapidly during economic downturns than they improve during periods of high growth. In the face of such asymmetry, two countries with similar net growth would have very different social outcomes if one experienced stable growth and the other more volatile growth—all else remaining equal. Furthermore, vulnerable populations, such as women, children and ethnic minorities, are often disproportionately harmed by such volatility in economic growth (World Bank and International Monetary Fund, 2010).

A recent World Bank and International Monetary Fund study quantifying this asymmetry found that, during the period 1980-2008, life expectancy increased by two years during periods of economic growth acceleration but declined by 6.5 years during periods of deceleration.²⁶ Infant mortality²⁷ was 8 per 1,000 live births lower during periods of economic acceleration and 24 per 1,000 higher during periods of deceleration. Completion of primary school followed a similar pattern: the rate was 4 per cent higher in good times, but 25 per cent lower in difficult times. The correlation between economic contraction and decline in social indicators is also stronger than that between growth and improved social indicators (World Bank and International Monetary Fund, 2010).

This asymmetrical relationship is also mirrored in indicators of institutional quality, including government effectiveness and political stability. In sub-Saharan Africa, the frequency of conflicts during times of deceleration was 23 per cent compared with 13 per cent during periods of acceleration.

The same study found that economic downturns also widen the gaps between boys and girls, supporting the oft-made claim that intrahousehold resource allocation favours boys over girls when resources are scarce. For example, in difficult times, life expectancy decreased by six years for boys but by seven years for girls. Moreover this gap does not narrow on the upswing: in good times, life expectancy for girls and boys rose equally—by two years for each sex.

²⁶ For definitions of acceleration and deceleration used in the present report, see World Bank and International Monetary Fund (2010, p. 30).

²⁷ The number of deaths among infants under one year of age in a given year per 1,000 live births in that year.

As more families face unemployment and reduced wages, one coping mechanism, particularly among the poorest, is to take children out of school in order to save on educational expenses and enable children to contribute economically to household welfare. However, when children are taken out of school they are unlikely to return and will suffer life-long deficits in terms of lost potential, educational attainment, productivity and income. The crisis is expected to lead to more girls than boys being taken out of school, a phenomenon that will widen the gender gap in enrolment. During periods of downturn, the primary school completion rate has been found to go down by 29 per cent for girls and 22 per cent for boys, but as the economy improved it rose by only 5 per cent for girls and 3 per cent for boys. These figures are global averages, but country- and region-specific differences also affect the extent to which economic downturns influence social indicators. For example, the impact of economic growth and contraction on social indicators in sub-Saharan Africa was lower than the global average, suggesting that the less developed countries were less sensitive to volatility in economic growth (World Bank and International Monetary Fund, 2010)), or that they suffered less in this regard because they were less integrated financially, although they were hard hit by their greater reliance on trade.

Although social safety nets in developing countries tend to be small and disjointed, there is growing recognition of their importance, and they are becoming more common in the response of Governments to recent crises. In response to the crisis, several countries expanded existing programmes or implemented new ones: The Republic of Yemen extended its cash for work and cash transfer programmes. The Philippines launched a conditional cash transfer program that was scaled up in response to the crisis. Brazil expanded its successful Bolsa Familia programme to include an additional 12 million families and increased the benefit by 10 per cent to compensate for increased food prices (World Bank and International Monetary Fund, 2010).

The impact of the food crisis

The food crisis pushed an estimated 130-155 million people into poverty in 2008. The recent economic crisis was expected to add between 47 million and 84 million people to the ranks of the poor (United Nations, 2010d). These estimates include people previously above the poverty line who recently fell into poverty as well as those who would have escaped poverty had the crisis not occurred. Although overall poverty rates may continue to fall, they will do so more slowly than had been the trend previously. Despite current expectations that many countries will reach the Goal on poverty reduction by 2015, the crisis has still hurt millions, if not billions of people. It is affecting the incidence of poverty in a variety of ways, including declines in trade, remittances and development assistance (World Bank and International Monetary Fund, 2010) besides the other channels already identified earlier.

Drawing on the experiences gained from previous crises and taking into account how households have responded to lost wages, it is estimated that 350,000 more students will not complete primary education by 2015 as a result of this crisis (United Nations Educational Scientific and Cultural Organization, 2010). It is likely that the full impact of the crisis on many health indicators will not be known for at least two years as analysts await the results of health surveys and other data. Some effects, such as increased mortality due to poorer nutrition and health care, may persist for many years. Indirect estimates give some idea of the magnitude of the outcomes that can be expected. The setbacks caused by the crisis are expected to lead to the deaths of 1.2 million more children under age 5 and 265,000 more infants between 2009 and 2015 (World Bank and International Monetary Fund, 2010). In Africa alone, 30,000 to 50,000 additional infant deaths are estimated to have occurred in 2009 as a result of the crisis, with virtually all these deaths affecting female infants (Friedman and Schady, 2009). A survey in Armenia found food consumption to be down by 41 per cent and health-care spending down by 47 per cent. In Mozambique, compromised nutrition is having dire consequences on child development. In Bangladesh, one third of households reportedly cut spending on education to cope with rising food prices (United Nations Educational, Scientific and Cultural Organization, 2010).

The combined effects of the spikes in food prices that occurred in 2008, the continuing high food prices and declining incomes as a result of the economic crisis have resulted in more undernourished people in the world than at any time in living memory. The current economic crisis is estimated to have added an additional 41 million undernourished people to the global total than would have been the case without the crisis (World Bank and International Monetary Fund, 2010). Poor households normally spend 50 to 80 per cent of their incomes on basic foodstuffs, and when food prices rise they are forced to cut spending on non-food items, such as health care and education. In some countries, household spending on food increased by 100 per cent while earnings stayed the same. Studies from previous crises show that, as prices increase, households reduce their consumption of more nourishing (and invariably, more expensive) food items, such as meat, poultry, eggs, fish, fruit and vegetables. When families are forced to make further spending cuts, they reduce the size and frequency of their already poorer-quality meals. Recent analysis shows that global undernourishment increased by 6.8 per cent due to food, energy and economic crises, adding 63 million people to the ranks of the undernourished.

Undernourishment, particularly among children and infants 0-24 months, can have life-long consequences with regard to their physical and cognitive development. Undernourishment accounts for 11 per cent of the total global disease burden and 35 per cent of that among children under age 5 (de Pee and others, 2010). Reducing malnutrition is also essential to achieving other Millennium Development Goals; lack of progress in improving nutrition will

have multiplier effects in other areas, such as child and maternal mortality. Increasingly, in response to the deleterious effects of the crisis, households will reduce health-care visits and health expenditures, children in affected households will drop out of school and valuable assets will be sold off.

Much depends on the pace of recovery

While some signs indicate that an economic recovery is under way, even small reductions in growth can have lasting negative consequences for many dimensions of poverty. Several of the Millennium Development Goals are unlikely to be met, either globally, or by many countries at the national level. Uncertainty about the pace of the recovery, the fear of a “double-dip” recession, as well as the lag time between output and social recovery, all make reliable estimation of the impacts of the crisis very difficult indeed.

It is possible to get some indication of the impact of the crisis on poverty levels by comparing two economic growth recovery scenarios to the pre-crisis economic growth trajectory (World Bank and International Monetary Fund, 2010). The first post-crisis scenario assumes a relatively rapid recovery where economic growth resumed in 2010 and continues into the future. This scenario assumes that there is no second dip causing slowed or stalled growth. If this scenario holds, by 2010, the number of additional people in poverty due to the crisis would reach 64 million. By 2015 and 2020, an additional 53 million and 71 million people, respectively, will have dropped below the poverty threshold. In this rapid recovery scenario, the goal of halving poverty would still be met by 2015.

The second scenario takes into consideration the potential for extended slow economic growth over a period of about five years, as in previous crises. In this slow recovery scenario, the poverty rate would only fall to 18.5 per cent in 2015, causing the first target of the Millennium Development Goals to be missed. The slow recovery scenario would result in 227 million more people being pushed into poverty by 2020. In sub-Saharan Africa, poverty is expected to fall to 35.8 per cent in 2015 (World Bank and International Monetary Fund, 2011). As many as 2 billion people—one third of the population of developing countries—are expected to remain in poverty at the \$2-a-day threshold by 2015.

These projections highlight two important points: first, the pace of recovery is very important in determining the impact of the crisis on future poverty levels. Second, it is difficult to determine the ultimate impacts of the crisis on long-term poverty trends and social development. In comparing the pre-crisis trend with the current recovery trajectory, gaps in the achievement of other Goals can also be estimated. As a result of the crisis, the world can expect 55 million more infant deaths, 260 million more child deaths, 300,000 fewer students completing primary education and 100 million fewer people having access to safe drinking water (World Bank and International Monetary Fund, 2010).

These varying scenarios highlight the sensitivity of poverty reduction and social development to the pace of economic recovery. If current trends continue, human development will still improve, although more slowly than if the crisis had not occurred. If the recovery stagnates, the social progress indicators would stall or deteriorate.

Social integration and crime

In late 2008, the Secretary-General of the United Nations warned that the crisis could lead to social unrest and political instability. Although systematic data are not available, there is growing evidence that the crisis is indeed having significant impacts on individuals, families and communities in terms of wellness, cohesion and conflict. In many countries, rates of mental illness, substance abuse and suicides have increased. Family cohesion is increasingly being jeopardized by divorce and domestic violence, as well as by the abandonment, neglect and abuse of children. Some communities are seeing increased outbreaks of conflicts and protests.

Protests, rallies and demonstrations have broken out across a number of regions in response to the adverse impacts of the crisis.²⁸ A 2010 study found that violent demonstrations, as well as perceptions of crime, had increased in 2009 in comparison with previous years (Institute for Economics and Peace, 2010). Although causality was not tested in that study, the observed increase is likely to have been due in part to the financial and economic crisis. Another study found that in Africa a negative economic growth shock of 5 per cent increased the likelihood of civil conflict by 50 per cent (Miguel, Satyanath and Sergenti, 2003). The Political Instability Task Force at George Mason University has also linked GDP declines to 46 out of 50 cases of instability since 1980. Economic distress is seen as an almost necessary, although not sufficient, condition for instability (*Economist Intelligence Unit*, 2009).

Rising unemployment and falling wages can also exacerbate existing tensions among social groups. Anti-immigrant sentiment is rising and has turned violent in some countries, for example, the Russian Federation and South Africa. Calls for restrictions on labour immigration have been proposed in some countries in the European Union, and polls have found broad support for programmes that would return migrant workers to their countries of origin (Awad, 2009). Youth

²⁸ Incidents of civil unrest have been linked to the crisis in the following countries and areas: Austria, Bangladesh, Bulgaria, Burkina Faso, Cameroon, Chile, China, Côte d'Ivoire, Egypt, Ethiopia, France, Germany, Greece, Guinea, Haiti, India, Indonesia, Ireland, Italy, Latvia, Lithuania, Madagascar, Mauritania, Mexico, Morocco, Mozambique, Nepal, Pakistan, Peru, Philippines, Portugal, Puerto Rico, Romania, Russian Federation, Senegal, Somalia, Spain, Sudan, Turkey, United Kingdom of Great Britain and Northern Ireland, Uzbekistan, Yemen and Zimbabwe.

unemployment also increases the potential for social unrest, violence and crime (International Labour Organization, 2010e).

The crisis has triggered family conflict and disunity. Economic stress is a major source of family tension and a leading cause of family breakups. A study of housing prices and marital dissolution in the United Kingdom in the period 1991-2004 found that a 10 per cent fall in housing prices was associated with an additional 5 per cent of couples breaking up (Rainer and Smith, 2009). Labour migration in response to the crisis is further breaking up more and more families, and there have been reported increases in the incidence of child abandonment, abuse and trafficking. In Thailand and Viet Nam, some mothers working long hours have had to leave children unattended. In Bangladesh, Indonesia, Jamaica, Kenya and Zambia, there have been reports of child abandonment; even the trafficking of boys from Nairobi has been attributed to deteriorating economic conditions (Hossain, 2009). Lithuania and Scotland in the United Kingdom have also seen increased referrals to child protection services (Eurochild, 2009).

Although data are scarce, some countries have seen an increase in cases of domestic violence linked to the crisis. For instance, a survey of 630 domestic violence shelters in the United States reported a 75 per cent increase in the number of requests for services since the onset of the crisis (Mary Kay, 2009). Half of the shelters surveyed cited job losses as a major contributor to the increase, and three out of four cited financial concerns as an important factor. The survey also found that abuse had become more severe and that, despite this, women were staying longer in abusive relationships. For some women, this choice may be due to a lack of resources to live independently. Unfortunately, declines in funding are also forcing some shelters to provide fewer services despite the rising demand. The National Domestic Violence Hotline in the United States registered an almost 20 per cent increase in calls for help in the 12-month period beginning in September 2008. That organization also found that the daily unmet need for services, due to the lack of resources, had increased from 8,927 cases to 9,280 between September 2008 and September 2009. Increased rates of domestic violence linked to the crisis have also been reported in Curaçao (one of the five islands of the Netherland Antilles in the Caribbean), India, the Lao People's Democratic Republic and the United Kingdom, among others.

Joblessness and increasing financial tension can contribute to mental illness, substance abuse and increased suicide rates. Surveys indicate a growing prevalence of depression in India, Indonesia, Pakistan, South Africa and Thailand since the onset of the crisis. Use of mental health services offered by clinics and hotlines has increased in China, India, Japan, Latvia and countries throughout Europe.

The World Health Organization has warned that the crisis is likely to cause an increase in suicides. The evidence from the period during the 1997-1998 Asian financial crisis shows that there is reason for concern: for example, the suicide rate



in the Republic of Korea nearly doubled after the onset of that crisis. A recent study of 26 countries in the European Union found that for every one per cent increase in unemployment, the suicide rate for people under 65 years of age went up by 0.8 per cent (Lundin and Hemmingsson, 2009). Increased suicide rates since the onset of the recent crisis have been reported in Egypt, Japan, Latvia, South Africa and the United States.

Concluding remarks: full impact unfolding

The impact of the recent crisis on poverty in developing countries has thus far been less severe than some had earlier feared, but no less severe than that of previous crises. While the impacts of the crisis undoubtedly have been substantial and persistent, to a large extent, a more dire poverty outcome was avoided because many countries had responded to the crisis with timely stimulus packages and social protection measures. The range of national and international responses to the crisis is covered in Chapters V and VI. However, the full impact of the crisis remains to be seen and will depend on the speed, strength and form of the recovery.

Many countries had implemented safety net programmes as policy responses to previous crises and these helped to partly insulate them from the worst impacts of the recent crisis. For example, conditional cash transfers in Mexico through the *Oportunidades* (opportunities) programme largely prevented a greater increase in poverty which might have occurred if the full impact of the crisis had been felt in that country (World Bank, 2010a). Increased social spending and improved social protection systems have cushioned the impact in many countries. Such positive experiences should provide sound guidance to policymakers on approaches to enable greater preparedness for future economic shocks.

Obviously, the pace of recovery matters with regard to the long-term impact of the crisis on poverty. Based on initial indications, a slower recovery would leave twice as many additional people in poverty in 2020 than would a rapid recovery. However, at the G20 meeting in Toronto, Canada, in June 2010, leaders shifted away from advocating stimulus spending to emphasize debt reduction and fiscal consolidation. Many fear that it is too early to abandon the stimulus packages that have spearheaded the recovery; measures have not been taken to address unemployment and a second-dip may still be forthcoming as there are already signs that the recovery is slowing. It is thus difficult, at the current juncture, to be confident about projections based on early signs of recovery when the risk of backsliding remains high. There is growing concern that, while banks and financial institutions are recovering and productivity is growing, the welfare of the people is lagging behind because unemployment remains high and is expected to remain so for some time to come.