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How economic shocks affect poor households and children

- The combination of food and fuel price increases followed by global economic slowdown has taken a toll on poor families through lower purchasing power, reduced access to social services and higher unemployment.
- Women and girls also suffer disproportionately as households adjust to lower income. When children lower their caloric intake or are removed from school to save money and supplement household income, there may be long-term development consequences.
- Without action to protect poor families and children, negative effects of the crisis could be passed on to future generations.

The global financial crisis that erupted in 2008, coupled with food and fuel price volatility, are likely to affect developing countries, and within them the vast majority of the world's poor population in profound ways. Based on both experiences in previous crises and the information that is available thus far on the current crises, this working brief will examine the channels through which this combination of crises will affect households and their children.

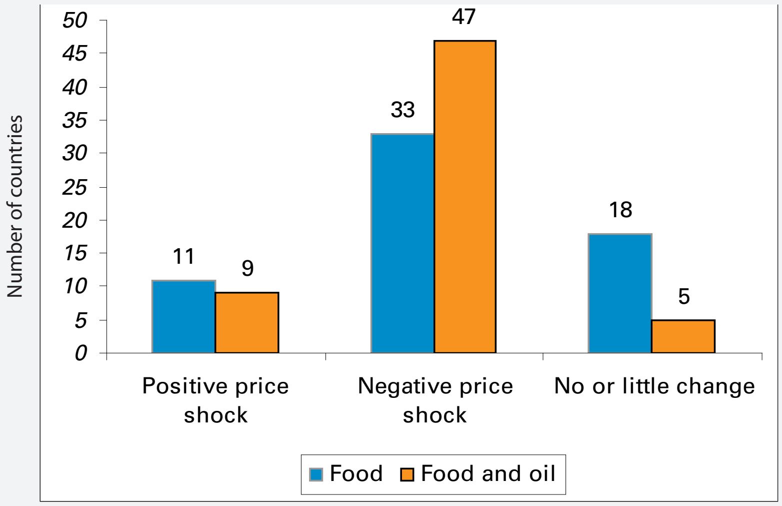
MACRO LEVEL EFFECTS

The impact of shocks on social welfare depends on a variety of factors, including the nature of the shock, the country's macroeconomic situation, initial household and community conditions, and the extent and types of policy responses by the government. Developing countries currently face a combination of shocks, including sharp increases in food and fuel prices and a global economic slowdown. Drawing on predictions of the impact of the current crises, it is possible to foresee some of the ways in which the current combination of shocks will impact developing countries.

Food and fuel price increases

In the case of the recent rise in food and fuel prices, most countries are net importers of both commodities and faced high import bills as a result in 2008 (See Figure 1). In addition, since poorer households tend to consume food as a greater share of their overall expenditure, the price increases negatively affected their purchasing power and created inflationary pressures. In response, many affected governments increased consumption subsidies or reduced food and fuel import tariffs. As a result, there are a number of developing countries with depleted fiscal resources to respond to the global economic slowdown.

Figure1: Impact of increased food and fuel prices on low-income countries' current account*



*In this case, low income countries refer to Poverty Reduction and Growth Facility-eligible countries, defined as those eligible for the IMF's low-interest lending facility for low-income countries.

Global economic slowdown

In its March 2009 forecast, the World Bank reported that for the first time since World War II, world output is expected to decline, with a global contraction of GDP by an estimated 1.7 per cent in 2009. Developing countries are expected to grow by a mere 2.1 per cent, or one-third as much as in 2008 (5.8 per cent) and one-fourth as much as in 2007 (7.9 per cent). Similar contractions in growth in industrialized countries could compound the situation in developing countries, reducing finance flows to developing countries by an estimated $300 billion, or 25 per cent, in 2009, through reductions in private capital flows, international trade and foreign aid.

Micro level effects

As developing countries face a combination of macro level effects of the crises, the impact passes through to the household level (See Figure 2). These micro level impacts are experienced in the form of reduced household income, because of lower wages and employment or limited access to credit, reduced real income, in the face of higher food prices, and decreased access to public services, when governments are forced to reduce service delivery in the face of diminished fiscal space.

Decreased social spending means less access to services

Under conditions of tighter liquidity, slower growth or outright economic contraction, social budgeting and social spending tend to face pressure, as has been the case in a range of previous crises. For instance, during the Asian financial crisis, the 1998 public health and education budgets in Thailand declined by 9 per cent and 6 per cent respectively compared to the previous year. Reduced spending on this scale can limit the provision of vital health and education services at a time when poor households are also experiencing shocks from decreased income.

High food prices and unemployment reduce household income

For those households that are net consumers of food, higher prices diminish their purchasing power and could push them below subsistence and into poverty. The increase in prices is exacerbated by rising unemployment and decreases in wages that poor households face. Already predictions from the ILO forecast that the global unemployment rate could increase from 5.7 per cent in 2007 and 6.0 per cent in 2008 to as much as 7.1 per cent in 2009, suggesting that over 50 million more people will be unemployed globally in 2009 as in 2007.

In particular, many migrants have lost employment or are receiving lower wages as a result of the economic situation in developed countries. As a result, remittances are expected to contract by 5 to 8 per cent in 2009, compared to an estimated growth of 6.7 per cent in 2008. Reduced employment and wages can push many families into poverty and force them to make difficult choices about household spending.

EFFECTS ON CHILDREN

Because the impact of shocks on a household may not always be evenly divided among household members, it is important to consider what determines the impact on children in particular. In many cases, the coping strategies that poor households use when facing a crisis are harmful towards children, often girl children in particular. The effects of the crisis on children are of particular concern because they can limit a child's development, potentially locking future generations in poverty.

Coping mechanisms put women and girls at a disadvantage

In order to respond to a shock, households may resort to unfavorable coping mechanisms, which often are most damaging to women and girls. Preliminary reports and surveys in developing countries show that as a result of widespread job losses, women are shouldering the brunt of household coping strategies by adjusting food preparation and shopping, augmenting household income through multiple jobs and controlling expenses through the collection of wild foods or collecting firewood in place of more expensive alternatives such as kerosene.

Some coping mechanisms are harmful to children

Other coping mechanisms could be especially harmful to children. In many households, children may drop out of school to save on household spending and increase income through child labor. Evidence from Brazil shows that an unemployment shock to parents significantly increases the probability that a child enters the labor force, drops out of school and fails to advance in school. A study of household expenditure responses to wage shocks in Mexico during the 1990s suggests that households tend to react to temporary wage shocks by cutting spending on education and health-related expenses.

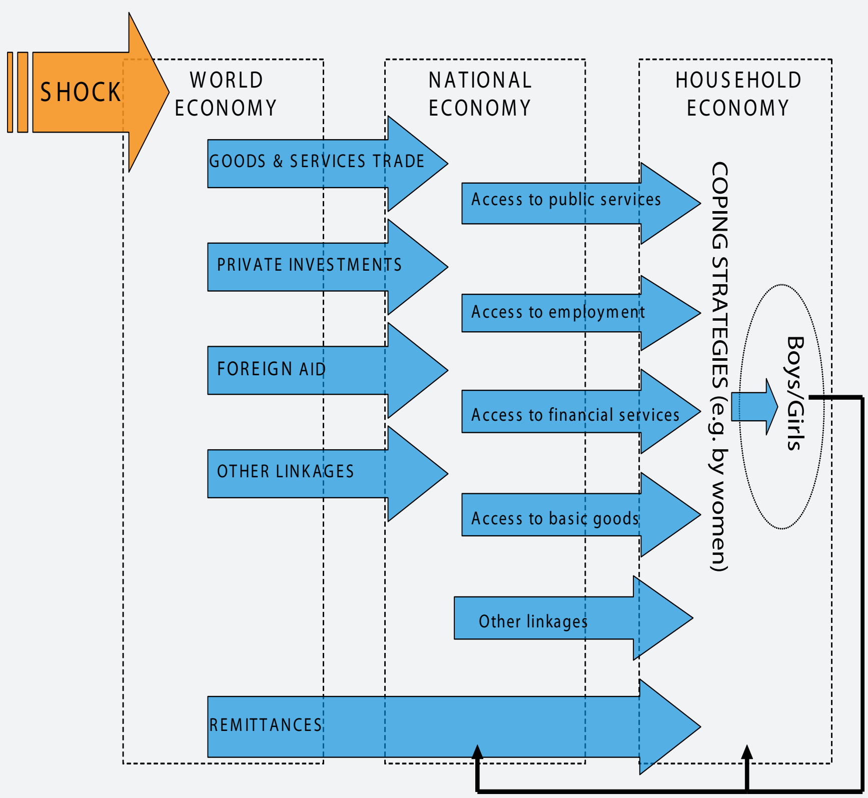
Coping mechanisms limit children's long-term development

When children grow up lacking education and suffering from the effects of poor nutrition, adverse physical and cognitive consequences to their development can result. For example, as a result of decreased schooling during times of crisis in Zimbabwe, a child's lifetime earnings were 14 per cent lower than the average child. Evidence from China shows that individuals born during the 1959-1961 famine had stunted growth, lower body mass, fewer years of schooling and were less likely to complete primary school. These results show how the impact of a crisis can limit the future earning potential of children and make it more difficult for them to move out of poverty as an adult.

Negative impacts on development can be passed on to future generations

These impacts can also be transferred from affected children to their future children creating

Figure 2: From macro to micro to child-level: How aggregate shocks can affect children



an intergenerational transmission of poverty. One clear example of this is the association between a mother's nutritional status and her child's nutritional status. According to fourteen studies based in industrialized countries, a 100 gram increase in a mother's weight is linked to a 10-20 gram increase in her child's birth weight

In the face of the current combination of crises, developing countries must consider the impact on children and respond by protecting them from potentially long-lasting consequences.

A study by UNICEF and its partners found that about 219 million children in the world under the age of 5 fail to reach their full potential in cognitive development due to poverty, poor health and nutrition and deficient care. This human development gap implies an economic development gap: had these children developed to their full potential as adults, their average incomes would have been about 20 per cent higher. In responding to the present financial crisis, as well as future ones, protecting children from the adverse impact of these crises will be critical, not only to advance their rights and break the cycle of poverty, but to safeguard countries' future economic growth and human development.

REFERENCES

The working brief is based on UNICEF working paper Aggregate Shocks, Poor Households and Children: Transmission Channels and Policy Responses. Complete references for this working brief may be found in the working paper at: www.unicef.org/socialpolicy/index_48711.html

About the Working Brief Series

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