

## *The Allama Iqbal Lecture*

### **Child Poverty and Economic Growth**

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I would like to thank the organisers and the PIDE for giving me the honour to present this year's Allama Iqbal Lecture on the subject of Child Poverty and Economic Growth and the opportunity to talk to such well-informed and distinguished audience.

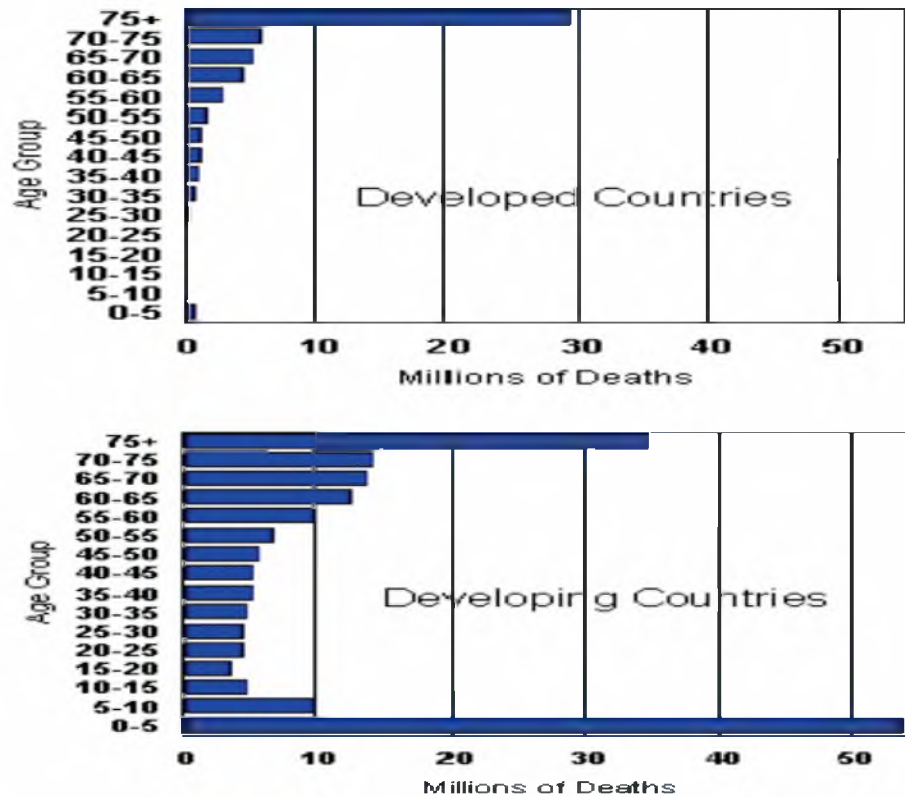
I believe that child poverty and economic growth is a subject that is rarely discussed but I think it is a crucial subject for the 21st century. I have only got a brief time to talk to you, so I will only be able to skim over the surface of many issues. If you want to go into a greater depth, there is a website for the Townsend Centre for International Poverty Research, where you can find more details about the issues to which I am going to talk.

Allama Iqbal was a great philosopher and a great poet and also one of the first people to translate some of the classic economic works into Urdu. He was also one of the ideological founders of Pakistan. In a famous letter he wrote in 1937, he set out his ideas about poverty and a need for a Muslim state. He argued that the question, therefore, is how it is possible to solve the problem of Muslim poverty and the whole future of the League depends upon it. He believed that there was a solution to the problem of Muslim poverty and that was the enforcement of laws of Islam and its further developments, and enlightened modern ideas. However, he came to the conclusion that in order for that to be successful, there needed to be a state of Pakistan. Therefore, in his mind, one of the key reasons for the need for a state of Pakistan was in order to provide subsistence to the people and this was the key way of achieving that.

Children are very important; they may represent only 45 percent of the Pakistani population but they represent the 100 percent of its future. Therefore, the issue of child poverty is key to the future of Pakistan. This rather dull statistical graphic (Figure 1), produced by the UN Population Fund (UNFPA), shows the world's greatest inequality. The top graph shows in 5-year age bands, the number of people who died between 1990 and 1995 in the developed countries of the world. Most of the people who died in the rich countries of the world, had reached the age of 75 between 1990 and 1995, 30 million people died over the age of 75. For the most part, they have had long and relatively healthy lives. However, in the developing countries of the world, where the 80 percent of the population lives, the chances of dying were not greatest when you are in old age but the greatest when you are a young child. Between 1990 and 1995, it is estimated that 55 million children died. In work published based on research, it is argued that the

underlying cause of the majority of those deaths was extreme poverty. The cause of those death were malnutrition, diarrhoea, pneumonia, and interventions costing less than US 1 dollar, would have saved most of these lives had the medical care been available. It is very hard to get an idea of the scale of this.

**Fig. 1. Age at Death by Age Group, 1990-1995**



Source: *The State of the World Population 1998*.

The 20th century was the most violent and bloody in the world history. It started with the colonial atrocities in Congo, then there was the World War I, in which many people from the Punjab fought and died, the World War II, famines in China, purges in Russia, wars in India, Pakistan and Bangladesh, and the kinds of things that we learn at school. Everyone in the world knows about these terrible atrocities that led to so millions of deaths from newspapers and other media sources. However, what we often do not see in the media is the death toll resulting from poverty in children under five years of age. You can see that in 1990-1995, estimates plotted on the same scale, the death of the young children from poverty dwarfs the death toll from war and from atrocities.

Many of the long-term causes of those deaths are because of the very violent natures of the European societies, including the United Kingdom. This map in Figure 2 shows in red, all the countries that the Britain has invaded over the past 100 years. The colonial exploitations that followed these violent invasions is one of the underlying

causes of mass inequalities that we often see in the world today. Yet, it is often not realised the violent nature of the economy in the public mind. Even in the authoritarian countries, the economic nature of violence is often not perceived. It is the violence of the economy, which leads toward these child deaths. You can see some of the consequences. The figure shows the latest data from Pakistan on the targets for Millennium Development Goals (MDGs). Pakistan is to be congratulated that its first goal of halving extreme poverty was met several years ago, according to the national statistics. It is possible that by 2015, Pakistan may meet the goal of halving the proportion of people who do not have access to safe drinking water. Unfortunately, for all the other goals, it is unlikely on common trends that Pakistan would meet those goals by next year, which is only a week away. There is a lot of work still to do.

**Fig. 2. The Countries that Britain has Invaded**



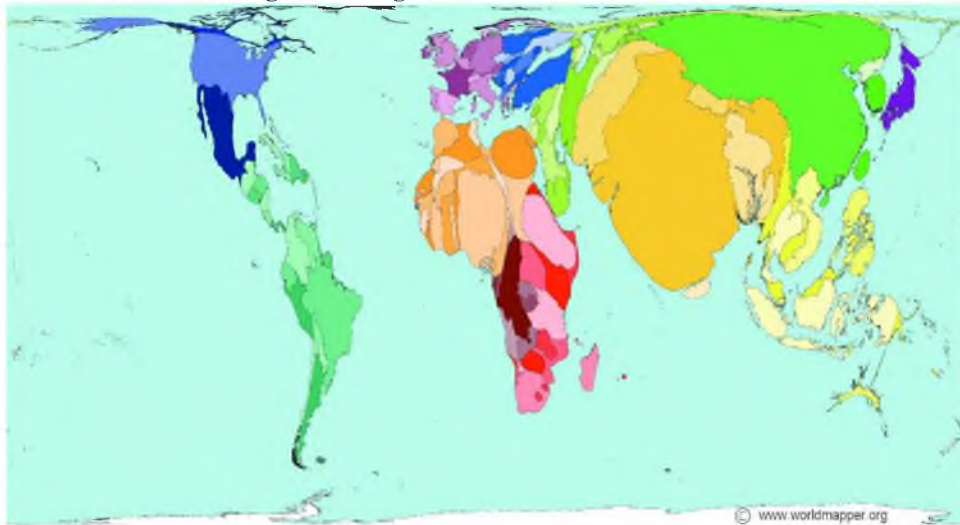
Source: Laycock, S. (2012) *All the Countries We've Ever Invaded: And the Few We Never Got Round to* London, The History Press.

If we look at the state of Pakistan's children, what we find is that about two-thirds of Pakistani children live in squalid living accommodation in dwellings with more than five people per room, which have a mud floor. This is from using the data released in 2012-13 from Demographic and Health Survey. In addition, a quarter of Pakistani children have no toilet facilities whatsoever, not even a hole in the ground. If they want to go to the toilet, they have to go to the bush or the fields and this can be dangerous, particularly for girls. Over 5 million Pakistani children are drinking water from open sources, such as rivers, ponds, or streams. Or they have to walk so far to get the water. It is not possible to take a 30 minute roundtrip to carry the 20 liters of water that is required to maintain health. About 5 percent of Pakistani children lack radios, telephones, televisions, newspapers, books, etc. at home. The only information they have is only that is available from family and community; they have no information otherwise about the outside world. Quite shockingly, a quarter of Pakistani children under five are severely food deprived, which is more than three standard deviations over the international reference mean. This is life-threatening levels of malnutrition. Although many of these

children would survive because of timely interventions, they are likely to be permanently—physically and mentally—impaired for the rest of their lives because this level of malnutrition have long-term health consequences. Sixteen percent of the children under five have never been immunised against any diseases whatsoever or had recent serious illness but did not receive any medical treatment. As far as we can tell from the survey data, they have never been in contact with medical services. And last but not the least, a fifth of Pakistani children of school age have never set a foot in a school. This is the current state of the children in Pakistan today.

If we look at the distribution of the world's children on a map which is called a cartogram (Figure 3), maps normally show the geographical size, a cartogram expands the size of a country based on a thematic variable, in this case the proportion of the world's children. What we can see is that most of the world's children live in Asia, particularly in the South Asian Subcontinent and in China. If we show the distribution of underweight children, what we see is that it is a particular problem for South Asia and Pakistan. Although many countries in the Sub-Saharan Africa are much poorer than India, Pakistan, and Bangladesh, the rates of malnutrition of children in these countries are much higher. This is often termed in the literature as the Asian Enigma, i.e. why should a country like Pakistan, which is relatively wealthy compared to Burkina Faso or Liberia, have higher rates of child malnutrition. The child malnutrition have long-term consequences for economic growth because if the children have poor health and their mental health is impaired because of severe malnutrition, then it is hard to get them to do well at school. Therefore, it has long-term consequences for the economic growth of any nation where the quarter of children are suffering from severe malnutrition.

**Fig. 3. Cartogram of the World's Children**



If we look at the 2010 data from the mix, for Balochistan, what you see in the green line is the international distribution of heights and weights for the international reference population of children. You would expect the Pakistani children to follow the green line but if you look at the figure, the children from Balochistan are three standard

deviations below the mean, to the left of this, children are at the risk of dying. It has long-term consequences for the economic development of that particular region.

How do we measure poverty? Why am I using these particular measures? How should poverty be measured in relation to human rights? You need a theoretical model of poverty in order to measure it and to test the validity and the model we use is one by one of my ex-colleagues, Professor Peter Townsend, the relative deprivation theory of poverty. He argued that poverty was to be defined as command over insufficient resources over time, if you do not have command over resources, income, and goods in kind over time, then you are poor and the result of poverty is deprivation. Therefore, deprivation is an outcome of a lack of resources.

The Human Rights Committee of the United Nations has argued that there is a minimum core obligation of human rights, which everybody on the planet, including every child and adult should have fulfilled. It is the responsibility of their governments to deliver these basic human rights. They argued that the state party, in which any significant number of individuals is deprived of essential foodstuffs, of essential primary health care, of basic shelter and housing, or of the more basic form of education is, *prima facie*, failing to discharge its obligations under the convention. They do not accept affordability as an argument for not delivering these fundamental core human rights. Every country in the world has signed up to these conventions and every country in the world has signed up to the United Nations convention on the rights of the child. These are not the Western values or Islamic values, these are universal world values to which every government and every person aspires.

In 2006, the United Nations adopted a definition of child poverty, which is the only international agreed definition of child poverty and all the governments of the world have agreed to this. Children living in poverty are deprived of nutrition, water and sanitation facilities, access to basic health-care services, shelter, education, participation, and protection. While a severe lack of goods and services hurts every human being, it is most threatening and harmful to children, leaving them unable to enjoy their rights, to reach their full potential and to participate as full member of the society. Again, this is Townsend's core inception of poverty and inability to participate in the society, which is unfulfilment of basic human rights.

People ask, when we measure child's poverty, why do not we use the World Bank's 1 dollar a day or 1.25 dollar a day poverty measures. There are a number of core reasons for doing this. First, little is known about the income and consumption needs of the children in most developing countries. Therefore, setting any income poverty threshold would be essentially arbitrary, given the current lack of knowledge. Household income-based poverty analysis usually assume equal share within the household and all the evidence we have from around the world shows that income is not shared equally between parents and children, particularly in poor families. Parents often sacrifice their own needs so that that their children do not suffer so much. The extent of child poverty is not just dependent on family income but crucially on infrastructure and services, such as health, education, and water supply. The extent of child poverty is not just about how much money your parents have but it is also about whether there is school, health care facilities, electricity, water, and sanitation. The internationally agreed definitions of poverty are all concerned with outcomes, the kind of deprivation outcomes that I have

already talked about, rather than the income. There are many technical problems with measuring income in poor families with children.

Therefore, many years ago for UNICEF, we developed a model in order to measure child poverty. We took the internationally agreed definitions of poverty that the Government of Pakistan and all governments have agreed to that poverty was basically severe deprivation of basic human needs in these key areas that are in the minimum core obligation in the international definitions of poverty. These include severe deprivation of food, water, sanitation, shelter, education, information, and access to services. Therefore, we ended up with eight dimensions of child poverty, which include three at the individual level, namely health, food, and education and the rest at the household level, which affect the child.

In order to err on the side of caution, to make sure the thresholds we used were so severe that no reasonable person would disagree with them, we took the internationally agreed thresholds on MDGs and we made them worse. Internationally, malnutrition is measured as being below two standard deviations but we use three standard deviations; safe water is taken as improved water source, we used open water sources; sanitation means improved sanitation, we use no toilet facilities whatsoever. Therefore, every single criterion we took, we used more severe level of measurement and yet we got tremendously high rates of child poverty. We constructed an index, using these measure and instead of using threshold of one, used the threshold of two again to err on the side of caution and when we did our initial work, we found that the third of children in the world were suffering from absolute poverty.

These methods have been used by UNICEF in most of the countries in the world. There was a global study, which involved 54 countries. They have been adapting and developing country-specific indicators in many other parts of the world. This was a recent report on Pakistan, which used these methodologies. If we look at the results for Pakistan from 2012-13, what we find is that child poverty in Pakistan is a largely rural phenomenon. It ranges from 60 percent in Balochistan rural areas to 4 percent in Islamabad. These kinds of break downs can be done for a whole range of variables. If broken down by languages, it shows how crucial it is to choose the right parents. If you are born to parents who speak in Urdu, you are unlikely to be poor. On the other hand, if your parents speak in Barhui, you possibly face the extinction of your community. Seventy-five percent of Baluchi and Brahui speaking parents have children who live in an absolute poverty.

There are surprises if you look at the child poverty in these very severe terms. There is very little difference in very severe and extreme child poverty between boys and girls, though one is slightly better off being a teenage boy than being a girl aged three. This is preliminary analysis but I suspect there is an overlap between all these categories. The relationship between child poverty and the number of adults and children in the household shows that more adults there are in general in the household, the lower the child poverty rates and more children there are, the higher the child poverty rates. This shows that you cannot just look at the numbers in the household when looking at the child poverty rates; you have to differentiate between adults and children. Another interesting finding is looking at the monogamous and polygamous households. Polygamy is often taken as socially beneficial, particularly in helping alleviate poverty but there are

little difference in the results of child poverty rates, when looking at the effect of monogamy, or polygamy, on the child poverty rates in Pakistan.

There are some key policy implications from this. A large number of children in Pakistan live in squalid conditions due to high rates of shelter, sanitation and water deprivation, particularly in rural areas. This has long-term consequences for their health and therefore their ability to be healthy and educated members of the workforce later in their lives. Severe malnutrition rates are very high in Pakistan and information deprivation is often missing from the policy agenda but it has key importance if you want well-informed population in the 21st century. The social protection programmes need to be expanded, particularly health and education programmes as many children in Pakistan have no contact with medical services and many never go to school. Child and family benefit programmes need to be introduced and expanded across Pakistan. They are relatively inexpensive and have been shown to be very effective at reducing child poverty. The pattern of severe deprivation varies within and between states in Pakistan. Therefore, different policy packages are needed in different areas to target the problems that are having the greatest harmful effects on children's lives.

What are the key reasons that people often argue that nothing much can be done as it costs too much to solve all these problems. However, what is often not discussed is the cost of not solving these problems. There are a very few good estimates on the costs of solving all these problems that I have been discussing. The first estimate that was produced by the UNDP in 1995 argued that providing basic education to every person in the planet would cost US \$ 6 billion per year for 10 years. In total, it would cost US \$ 40 billion a year for 10 years to provide all these basic social services, which lead to very high death tolls in children and very high impairment mobility tolls on the children. That is a lot of money but to put in perspective, it would cost US \$ 13 billion a year to provide basic health and nutrition to every person on the planet and in Europe we spent US \$ 12 billion a year on dog and cat food. We are not talking about a huge amount of money, we are talking about the dog and cat food budget of the Europeans in the 15 member states. These are easily obtainable, given the size of the global economy. It is important to remember that it is not the lack of money that is preventing these things from happening.

Of course, we are in an age of austerity. In 2008, everyone knows that banks gambled and lost. The top 50 banks before the financial crisis are a fraction of the value of these same banks after the financial crisis. The banks made a gamble and they lost vast sums of money carelessly. They lost more money than the equivalent of the GDP of the European Union and the United States combined. In order to stop the global financial system from crashing, huge rescue packages were required. For example in the U.K. the rescue package was almost equivalent to a 100 percent of the US GDP and similar in the US. This leads to indebtedness in many of the Western countries, i.e. in the big economies of the world, which consequently lead to a global recession. One of the reasons for this crash was the political economy reason that the share of income that has been going to population has been declining since the 1970s. Thus, in 1970 in the rich countries of the world, labour got about 57 percent of the national income, which by 2000 had fallen to 50 percent. If the world is producing more and more and the amounts of money going to the population is getting less and less, the only way the population can keep buying the goods, and therefore keep the engine of capitalism going, is if they become indebted.

When this increase in indebtedness happened in the late 1970s and the 20th century, it finally came off the rail and led to the financial crash.

In the Western countries, the population gets a higher share of the national income than they do in the other parts of the world. In Sub-Saharan Africa, the population only gets 30 percent of the national income, which is one of the reasons that there is more poverty in Africa as compared to what there is in, say, Europe. It is not just because of economic growth and that there is a bigger pie in Europe, but also because the population in Africa gets less of what there is. Indeed, Pakistan was not immune to this global financial crisis, which is shown by the economic misery index for Pakistan, which is basically inflation change plus unemployment, between 1972 and 2012. The economic misery in Pakistan has been increasing since 2008. It is strange that when employment and inflation are increasing so fast in Pakistan that income poverty still ceases to be fuelling according to the national statistics; when employment and inflation go up, poverty also tends to go up.

There have been a number of attempts to work out the long-term costs of poverty. According to a World Bank estimate, the school dropout in Uganda cost about 34 percent of its GDP and 3 percent of GDP is lost in India because of teen pregnancy. The World Bank argues that investing in children and youth is smart economics. The countries that produced skilled, healthy and productive workforce are in a better position in the global economy to achieve economic prosperity, political stability, and social well-being. Some models to estimate the cost of child poverty are fairly crude but there are also sophisticated models used in some other countries. A rather conservative econometric model from the U.K. looks at the costs in terms of social spending needed because of child poverty and also the lack of future income the poor children will achieve in their adult lifetime. The poor children tend to do worse in school, they do not get good education and qualifications and therefore they tend to get worse jobs that have lower pay.

This model looks at what will happen if we raise the children who are poor from below the poverty line to just above the poverty line. What it finds is that the cost of child poverty to the U.K. economy is about 25 billion pounds a year, which is 2 percent of the GDP. Because the child poverty has increased recently in the U.K., this cost has been basically estimated from the last year to be 29 billion pounds a year. The cost of eradicating child poverty in the U.K. is an equivalent order of the magnitude and getting rid of the child poverty and keeping it that way costs about the same in terms of economics. Of course, getting rid of child poverty has many other social benefits. Similarly, there are models from the U.S. and there is more child poverty in the U.S. It is estimated that the cost of child poverty in the U.S. is 4 percent of the GDP. In Ontario, Canada, the child poverty is estimated to be from 5.5 percent to 6.6 percent of GDP. In all of these countries, the cost of eradicating child poverty is the same as the cost of keeping it, or less than the cost of keeping it.

So, why do not the governments do it? The problem is that obviously investing in the children is a good idea because you will have huge economic returns if you reduce child poverty, the reasons governments do not do is that you have to spend the money today and you get the benefits in fifteen years time when the children grow up. In other words, governments do not like to think long-term. The economic case for doing it,



however, is very sound. The World Bank and many economists argue that in order to achieve economic growth, you need healthy and well-educated population in order to be competitive in the global market. The Preston curve shows how the relationship between GDP per capita and life expectancy for 2000 shows that small increases in GDP per capita leads to large increases in life expectancy. However, when you get to the levels of China, increases in GDP per capita, have less effect on life expectancy. These kinds of analyses have often lead people to argue in the world that health equals wealth. If the country is healthier, it is wealthier, will go for economic growth and all the problems will disappear. The U.K. in history is often cited as an example of that. The U.K. was the first country in the world to have the industrial revolution, and there were tremendous increases in health during the 19th century.

That story, however, is not quite correct. Analysis by economic historians at Cambridge has shown that between 1820 and 1870, the height of the economic boom and industrial revolution life expectancy in England and Wales did not change at all. In the cities, where the economic boom was going ahead, life expectancy actually fell. It is only after the industrial revolution happened that life expectancy began to rise rapidly. They also argued, why did Britain have the industrial revolution and not the other countries because Britain was hardly cleverer than other countries and it certainly was not the world's biggest or the brightest economy, France and the Netherlands had much bigger economies. What they argued was that because of historic circumstance, England had an effective social security system from 1601, the old Poor Law, which broke the link between famine and starvation. This allowed the peasants working on the land to take the chance of moving to the cities in order to look for better jobs. If things did not work out, they knew they and their families would not starve because they could rely on the Poor Law to prevent starvation. Therefore, the social security system, which cost about the 2 percent of the GDP, allowed mobility of the rural population to go to the urban areas. As a result, when the technology of the Industrial Revolution came along, there was already an urban workforce in the United Kingdom, which did not exist in the Netherlands and France, which were still largely rural. That is why Britain benefited first from these technologies. The lesson of British history, economic historians argue, is that if you want economic growth, you often need social security system in place first and not after.

If we look at the Tiger economies the ones that grew the fastest in the second half of the 20th century, we find that they had a very low level of development, instigated developmental welfare state policies to have healthy and well-educated populations. Therefore, Taiwan, Indonesia, Malaysia, Philippines, South Korea, China and Thailand all brought in the second social insurance law that extends the insurance to the population rather than to just the elites and the military when less than half of their workforce was working in the urban area and the majority of their workforce was working on the land. This is in contrast to the 19th century European experience where they waited until urbanisation to take place before social security coverage was expanded. The countries that expanded social security coverage and invested in the health and education of their populations had rapid economic growth in the second half of the 20th century.

Excessive inequality has become a defining in economics recently. President Obama says that inequality is the defining issue of our time and according to the Director of the IMF, Christine Lagarde, excessive inequality is corrosive to growth; it is corrosive to society. The

economics profession and policy community have downplayed inequality for too long. And the economist at the IMF said, we find that longer growth spells are robustly associated with more equality in the income distribution. Reduced inequality and sustained growth may thus be two sides of the same coin. So, you can economic growth for short periods by doing a whole range of things but to sustain it, you need reduced inequality.

The IMF researchers have recently in 2014 looked at the effects of inequality and redistribution on economic growth and what they find is that increase in inequality just from the 50th to 60th percentile, or GINI coefficient deteriorating from 30 to 42, reduces growth in all the countries they have studied by about half a percentage point, on average. On the other hand, redistribution by the about the same amount increased growth by about half a percentage point. One of the key ways of redistributing and alleviating poverty and therefore getting the economic benefits that it brings is through the ILO social protection programme. This is an international agreement from 185 countries, not just the Government of Pakistan but between the workers organisations and the employers. It provides universally agreed guidance on how to set up social security guarantees, which is one of the most effective ways to alleviate poverty. Some people argue that inequality is natural. The argument is that we all have different natural endowments and therefore inequality is inevitable. I will leave you with the words of one British scientist who knew a lot about the laws of the nature. "If the misery of our poor be caused not by the laws of nature, but by our institutions, great is our sin". Charles Darwin.