

PRO-POOR POLICIES

The important role of meso-policies in ameliorating the negative impact on vulnerable groups was brought up at the Roundtable. Whereas macro-policies influence primary incomes of the poor, meso-policies — in particular with respect to taxation and public expenditure — may compensate for or accentuate the effects of macro-policy, through their influence on secondary incomes. Well-designed meso-policies can, to some extent, protect the poor from adverse effects on their primary incomes during economic recessions.

For example, if taxation on goods typically consumed by lower-income groups (e.g. staples, beer, tobacco) is increased, the secondary incomes of these groups will be worsened. Meso-policy choices with respect to public expenditure can be even more important in protecting the poor. These choices include the overall level of public expenditure with respect to GDP (and the corresponding tax ratio); the proportion of total government expenditure going to social sectors, for example health and education; and the priority that is given to social-sector expenditures, such as primary health care, which are directed at lower income groups.⁴

support from the international community, governments have at their disposal policy choices that protect the poor and which maintain investment in social capital such as health and education. Canada can play a role in supporting this kind of policy emphasis.

Put differently, the incidence of poverty will be affected by, among other things, whether there is a worsening of income distribution in affected economies. The World Bank's projections show that even with zero growth for the next three years, the incidence of poverty in Indonesia, Thailand, Philippines and Malaysia would rise only slightly, to levels prevailing in the mid-1990s, if there is no change in inequality. However, if inequality worsens, the rise in poverty could be much higher. For example, a 10% worsening in inequality would cause poverty incidence to more than double, from less than 7% in 1997 to almost 15% in 2000.⁵

A scenario of worsening income inequality, especially in Indonesia, is not difficult to envisage, and the resultant increase in poverty would undo much of the social progress of the last two decades. Such an abrupt reversal in economic welfare would undermine even further the legitimacy of political and economic institutions that have played an important part of East Asia's economic success. The stakes are very high indeed. 

END NOTES:

- 1 The Asia Pacific Foundation of Canada would like to thank the Canadian Centre for Foreign Policy Development for financial support and the International Development Research Centre for the use of its premises. The Roundtable was conducted under Chatham House rules and comments are not attributed to individuals.
- 2 This section draws heavily from Tamar Manuelyan Atinc and Michael Walton, *East Asia's Social Model after the Crisis* (Washington: The World Bank, 1998, pre-publication version).
- 3 Lustig, Nora, *Latin American Crises and Social Costs: What Lessons for Asia?* Paper presented at Conference on "East Asia: The Unfinished Agenda," cosponsored by the World Bank and the Asian Development Bank, Manila, March 10-12, 1998.
- 4 Stewart, Frances, *Adjustment and Poverty: Options and Choices* (London: Routledge, 1995).
- 5 Atinc, Tamar Manuelyan and Michael Walton, *East Asia's Social Model after the Crisis*. (Washington: The World Bank, 1998, pre-publication version).