Are Poverty and Social Goals Attainable in the Transition Region?

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The current situation

Regions of the world have differed in the degree of macroeconomic disequilibrium associated with the process of adjustment to a freer globalised economy, and also in the change in poverty associated with that adjustment. For all that a resumption of growth may be a necessary condition of poverty reduction, a region's poverty trajectory — as Table 1 shows — is very loosely associated with its growth performance. We speculate on the reasons for this later in this article, but important possibilities, particularly relevant to the transitional region, include the coincidence of the return to growth in the 1990s with loss of jobs in the public sector associated with economic reform, leading to a movement of the 'new poor' into the informal sector and a consequent increase in inequality.

Both these remarks apply with particular force to Eastern Europe and the former Soviet Union, which have experienced, since the beginning of the 1990s, an increase in poverty unlike any experienced elsewhere. Certainly the size of the shock to the structure of production administered by the movement to a more marketised economy was more abrupt than elsewhere, as a consequence of the scale of the changes in property rights, institutional structures and competitiveness that have occurred. But even in those transitional countries that have now returned to positive growth, in particular Hungary, Poland and the Czech Republic, poverty, which rose more sharply than in other parts of the developing world, has yet to turn downwards again. And in those which have not, in particular Russia and the Ukraine, the situation is exceptionally bleak, with many social indicators, in particular mortality levels, themselves deteriorating.

These trends are spelled out in Table 2. They clearly pose, in themselves, a threat to the achievement of the International Development Targets. It will be the main purpose of this article to determine what the scale of that threat is.

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Table 1
Population on less than $1 p.d. in developing and transitional economies, 1987 and 1993

Region	*GDP Growth rate 1990-97 (%)*		*Poverty headcount (millions)*		*Share of population (%)*		*Poverty gap (%)*
	1990-97	*1987-93*	*1987*	*1993*	*1987*	*1993*	*1993*
E. Asia and Pacific	9.9	8.6	464.0	445.8	28.8	26.0	7.8
Europe and Central Asia	-5.4	-4.3	2.2[a] 13.6[b]	14.5[a] 119.2[b]	0.6[a] 3.7[b]	3.5[a] 28.7[b]	1.1[a] 9.0[b]
Latin America and Caribbean	3.3	1.9	91.2	109.6	22.0	23.5	9.1
Middle East and N. Africa	2.6	2.3	10.3	10.7	4.7	4.1	0.6
South Asia	5.7	5.1	479.9	514.7	45.4	43.1	12.6
Sub-Saharan Africa	2.1	0.9	179.6	218.6	38.5	39.1	15.3
Total low and middle income	*2.8*	*2.2*	*1225*	*1310*			

Sources: Demery and Walton(1998: Table 1); UNDP(1998a:15, Figure 1.8). In row 2, estimate (a) is taken from Demery and Walton and estimate (b) from UNDPa.

A number of observations are required on the data and the initial conditions. First, Table 2 contains two different types of poverty indicator: the national poverty line and the international standard poverty line of $1 per diem at 1985 purchasing power parity prices, measurements of which are available for 1994 and 1997 only. Measurements of poverty according to national poverty lines go back a good deal further: they typically correspond to the value of a minimum household consumption basket defined in order to assess entitlement to social security payments. For example, in Poland and many other East European countries the national poverty line is simply the value of the minimum pension.

Across the entire Soviet Union a minimum consumption basket was specified by the Central Statistical Office (Goskomstat), valued at 80 roubles per month in 1989, at which point the proportion of households estimated to fall below this level was 11%. Because of variations in price levels and actual consumption patterns between countries of the Soviet Union, the likelihood is that individuals just below the poverty line[1] had lower consumption standards in the eastern than in the western part of the former USSR.

Secondly, both types of poverty data contain the possibility of errors of three types. In the first place, they measure the proportion of households which fall below an estimated required household income. Thus there is a likelihood of large households being under-recorded in poverty statistics; some national administrations made attempts to correct for this bias, but some, and in particular that of the former Soviet Union, did not, which carries the implication that estimates of pre-1990 poverty levels for what are now the independent Central Asian republics are far too low. In addition, both sets of data are based on expenditure surveys, and probably understate (by an average of 25%, according to UNDP(1998a:81)) earnings in the shadow economy. Finally, the estimates of poverty levels which appear in Table 2 are calculated after any tax and social security payments, but exclude payments to poor individuals by voluntary organisations. Such traditional community groups — the *mahallas*, as they are known in the Uzbek and Tadjik cultures — have for many years informally identified the most vulnerable in their community, and evaluated eligible families for assistance using a range of welfare indicators. They are now, as we shall see, being adopted by the new governments of Uzbekistan and Tadjikistan as a vehicle for social safety-net payments.

Thirdly, the very large gap between poverty measurements made according to the dollar-a-day measure (14 million in 1994) and the national poverty line measure (119 million in 1994, or nearly ten times as many) will be observed. The implication is that poverty is perhaps shallower in the transitional region than in the Third World proper. UNDP's report on *Poverty in Transition* (1998a) argues that this is the case, with the poverty gap being only 2–3% of the poverty line[2] in Eastern Europe, by contrast with around 15% in Africa and South Asia (see Table1). Some of the recent World Bank poverty assessments for East European countries, for example World Bank (1995), explicitly insist that no significant 'underclass' of unskilled and socially excluded individuals

1. These were not officially described by the Central Statistical Office as 'poor' but as 'under-provisioned' (*maloobezpechennie*). 'Poverty', in Russia and other parts of the former Soviet Union, is a word that has only recently appeared in economic and political debate.

2. This is on the dollar-a-day yardstick; it is 20-25% if national poverty lines are used.

Table 2

Eastern Europe and FSU: poverty levels

(1) *Countries*	*(2)* *Per capita GDP 1997($)*	*(3)* *% of poor 1988*	*(4)* *% of poor 1994*		*(5)* *% of poor 1997*		*(6)* *GDP annual growth rate 1988-97*	*(7)* *Poverty elasticity*[a]
		National poverty line	*$1p.d. poverty line*	*National poverty line*	*$1p.d. poverty line*	*National poverty line*		
Czech Rep.	5050	0	3.1	1.0	0.5	1.5	3.5	2.9
Hungary	4462	1.0	2.0	25.3	3.1	23.5	2.0	4.1
Romania	1549	6.0	17.7	21.5	24.5	39	-2.3	-5.2
Poland	3512	6.0	6.8	23.8	5.5	27.5	5.2	1.4
Baltic States (average)	3017	1.0	9.0	37.0	14.3	30	-10.3	-1.3
Ukraine	976	2.0		31.7	30	50	-9.6	-1.4
Russia	3056	2.0	10.5	30.9	20	50	-10.9	-0.8
Kazakstan	1700	5.0			20	60	-10.7	-0.8
Kyrgyz Rep.	366	12.0	18.8	40.0	70	100	-10.3	-0.7
Transition economies average	*2709*	*8.1*	*11.2*	*34.7*	*20.6*	*42.7*	*-6.7*	*-1.2*

Sources: *Column 2*: EBRD, *Transition Report 1998*; *Columns 3-7*: 1988 data from UNDP, 1998a:212; 1994 data from World Bank, 1998: Table 4; 1997 estimates from UNDPa: 13, Table 1.1.

Note: (a) The poverty elasticity is calculated as the ratio of the percentage annual change in headcount poverty to the percentage annual change in real GDP. Headcount poverty is calculated only on the basis of national poverty lines, i.e. by making a comparison between columns 3 and 5. A positive value for the poverty elasticity is unusual, and indicates that poverty is increasing as the economy grows.

exists in, at least, Poland,[3] the Czech Republic, Hungary, Slovenia and the Baltic States. Poverty is, however, much deeper in Central Asia and parts of Russia. In what follows, for comparability, we use only the dollar-a-day (at 1985 purchasing power parity) measure of poverty. This PPP measure is supposed to net out obvious differences in the 'minimum requirement' of, in particular, heating fuel, clothing and housing between tropical regions and the temperate latitudes of the transitional countries. However, given the more rapid increase in transitional area prices than in tropical area prices since 1985, it may fail to do so, and to that extent the dollar-a-day measure will *understate* the extent of absolute poverty in the transitional area.

Fourthly, the estimated value of the average poverty elasticity for the transitional region, at minus 1.2, perhaps does not look enormously unorthodox in relation to an estimated global average of minus 0.86[4] (Hanmer and Naschold, 1999). However, the dispersion around this figure is wider than elsewhere, with some East European republics having large *positive* values for the poverty elasticity, meaning that poverty is increasing even though per capita income is also increasing. Furthermore, all countries of the former Soviet Union have experienced, and some are still experiencing, large drops in per capita income, sometimes of the order of 10% per annum over the last ten years. In such a context, a high and negative poverty elasticity is a liability, as it means that a large drop in income will translate into an even larger proportional increase in poverty, as in Ukraine, the Baltic States and Romania. If negative growth translates into positive, of course this will no longer be the case; but whether poverty elasticities are robust over time, and in particular whether they are robust in face of economic convulsions of the type which most transitional economies have known in the past ten years, is an issue which we do not yet have the data to estimate.

Trends and projections

Poverty levels

From these national budget surveys we have evidence of a very sharp increase in poverty across the whole of the transitional region. According to UNDP, which uses national poverty lines as its yardstick, 'an additional 75 million

3. The World Bank's report on Poland reports that 'poverty incidence increases by between 0.54 and 0.78 percentage points for each percentage point increase in the poverty line - a high elasticity suggesting shallow, clustered poverty, without a distinct underclass,' (World Bank, 1995:11).

4. This decomposes into an estimate of –0.93 for low inequality countries (Gini coefficient <0.43) and 0.34 for high inequality countries (Gini coefficient >0.43).

people slid into poverty between 1989 and 1994', but even Table 1, which uses the dollar-a-day PPP measure, shows an increase of the same relative magnitude. The reasons for this dramatic deterioration are still disputed and vary from region to region but certainly include:

- a sharp fall, sharper than in other adjusting countries, in the output of former state industries when exposed to competition, leading to some increase in unemployment, more so in Eastern Europe than in the FSU;[5]

- a sharp increase in the inequality of labour incomes, aggravated during the early stages of transition, and aggravated even now in Russia, Bulgaria and Ukraine, by high rates of inflation which redistribute income from those who cannot protect themselves to those who can. Gini coefficients of inequality, averaged across the transitional region, have gone in ten years from between 0.23 and 0.26, well below the OECD average of 0.33, to around 0.40, with female real incomes falling relative to male. Russian income inequality now exceeds that of the United States (Brainerd, 1998: 1098);

- in Russia and Ukraine especially, a collapse of tax revenue, which has made it difficult for the state to redistribute income to those below the poverty line;

- a lack of resilience on the part of the emergent private sector, making it unable to replace the livelihoods lost in the public sector with new ones gained in the private. In both the large and the small-scale sector, the contrast with China — the most successful transitional economy — is instructive. China reduced poverty by over 100 million in the 1980s through huge increases in the productivity of a labour-intensive agriculture dominated by small farms (and to a lesser extent by increases in the competitiveness of a labour-intensive export-based industry), whereas in Russia, an environment still, in the early 1990s, dominated by large farms and almost devoid of private small industries, international competitiveness proved impossible to achieve and poverty rose dramatically. China along with Hungary, and in recent years Poland, are also the only transitional countries which have had real success in attracting foreign investment,[6] which as elsewhere in the world has been highly polarised as between the successes and the failures. The inability of most transitional economies to develop a broad-based financial system is clearly an important reason both for this, and in particular,

5. Unemployment in Russia, in spite of the massive decline in output, was still only about 8% in 1998. (Brainerd, 1998:1097).

6. In both China and Hungary, cumulative foreign investment 1989-95 exceeded 30% of 1994 GDP; in all other transitional countries except Poland and the Baltic States it is less than 2%.

for the inability of the small-scale private sector to relieve poverty.

What needs to be stressed is that big increases in poverty are not confined to those countries, such as those of the former Soviet Union, whose macroeconomies have yet to return to serious growth. They are also found in Poland, currently one of the world's best-performing economies. Growth is indeed found in the export-oriented manufacturing sector, but it is not pro-poor growth, both because it is physical capital-intensive and because it is human capital-intensive, with little demand for people of low skill[7] who, as a consequence, are being progressively forced below the poverty line even as the economy grows. There is also a regional dimension to the problem, with most investment being concentrated in the west and centre of the country and most poverty being concentrated in the 'eastern wall' bordering on Ukraine and Belarus (PARR, 1998; World Bank, 1995). This poverty is typically trapped within the rural and specifically within the agricultural sector,[8] with little tendency, especially among the older age groups, to migrate towards the centres of employment in greater Warsaw and in the west of the country. As a consequence Poland, like Hungary and the Czech Republic, has a *positive* poverty elasticity, with poverty, on either definition, increasing through the 1990s as the economy grows. The model of pro-poor growth so evident in East Asia in the 1970s and '80s, in which poverty fell as a consequence of rapid growth in a labour-intensive, export-oriented and mostly small-scale industry and agriculture, has no parallel anywhere in the transitional region.

It remains to chart the implications of all this for the likelihood of the transitional region achieving the International Development Targets. These are of course bleak, if present trends continue. The fact that the targets themselves have attracted little attention in the press or in political debate[9] does not mean that the poverty reduction objective is not politically significant, as we shall argue below.

Table 3 presents (for the transitional region as a whole, and for nine representative countries) three possible scenarios, all of them using the dollar-a-day definition of poverty favoured by the World Bank: first, continuation of present trends; secondly, convergence of all transitional economies on a long-term annual increase in per capita income of 2.3% (currently being achieved only by Poland and the Czech Republic); and finally a combination of the World

7. 'Families with low levels of human capital now predominate among the poor' (World Bank, 1995:88).

8. '60% of Poland's poor live in villages' (World Bank, 1995:xiii) By 1995 agricultural real incomes had fallen to just over 50% of their 1989 level (ibid.,4).

9. When first publicised by the OECD they attracted only minor inside-page attention in both the Polish and the Russian press.

Table 3
Eastern Europe and FSU: predicted attainment of DAC poverty targets

(1) Countries	*(2) Numbers of poor 1994 (mn)*	*(3) Predicted numbers of poor (headcount index, $1p.d. measure) in 2015 (mn)*			*(4) Attainment of DAC target by 2015 on assumptions stated (projected date of attainment in brackets)**		
		(a) growth rate and poverty elasticity as 1988-97	*(b) growth rate as per World Bank projected level, poverty elasticity as in Table 2*	*(c) growth rate and poverty elasticity as per World Bank projected level*	*(a) growth rate and poverty elasticity as 1988-97*	*(b) growth rate as per World Bank projected level, poverty elasticity as in Table 2*	*(c) growth rate and poverty elasticity as per World Bank projected level*
Czech Rep.	0.3	0.9	0.3	0.2	no(..)	no(..)	no(2020)
Hungary	0.2	0.6	0.2	0.1	no(..)	no(..)	yes
Romania	1.4	5.6	0.9	1.0	no (..)	no(2022)	no(2024)
Poland	2.6	7.8	3.4	1.8	no(..)	no(..)	no(2024)
Baltic States (av.)	0.6	3.0	0.3	0.4	no(..)	yes	no(2022)
Ukraine	6.5	13.0	4.1	4.4	no(..)	no(2024)	no(2021)
Russia	15.4	35.6	11.0	10.5	no(..)	no (2023)	no(2020)
Kazakstan	1.6	4.4	1.4	1.1	no(..)	no (2037)	no(2024)
Kyrgyz Rep.	1.0	3.5	0.8	0.7	no(..)	no(2035)	no(2023)
Transition economies total	*45.2*	*78.4*	*29.5*	*24.6*	*no(..)*	*no(2021)*	*no(2020)*

Sources: *Column 2* applies the 1994 percentage of poor (Table 2, col. 4) to the population for that year as given in World Bank, 1998: Table 1; *Column 3(a)* uses the growth rates and poverty elasticities for each country found in cols 6 and 7 of Table 2 to form an estimate of poverty levels in 2015 for each country; *Column 3(b)* uses a standard growth rate of 2.4% from 1998 to 2015, as projected for the entire 'Europe and Central Asia' region by Demery and Walton (1998, Table 5) and attaches to this the poverty elasticity for each country calculated in col. 7 of Table 2; *Column 3(c)* uses a standard growth rate of 2.4% p.a. as in col. 3(b) and the standard global poverty elasticity of -0.86 calculated by Hanmer and Naschold (1999), i.e. this value is used to override the individual poverty elasticities for each country calculated in Table 2.

Notes: *****(..) in any cell denotes that a date for attainment of the DAC target cannot be given on these assumptions, either because of a projected negative growth rate or because of a projected *positive* poverty elasticity.

Bank growth assumptions with the global poverty elasticity of minus 0.86 reported by Hanmer and Naschold (1999). The results suggest that, even with, in most countries, higher poverty elasticities than the global level, the DAC target of a halving in extreme poverty will not be achieved by 2015 in any of the transitional countries, except for Hungary on purely World Bank assumptions and the Baltic States on a combination of the World Bank's growth projection and our estimate of poverty elasticity.[10] The possibility of the target being achieved even after that by the majority of countries which fail to hit it by 2015 depends on those economies which are currently in decline eventually moving to positive growth.

Table 4
Under-Five Mortality and Primary School Enrolment Rates

Countries	*Per capita GDP 1997 ($)*	*Under-5 mortality (per thousand)*			*Primary school enrolment (%)*		
		Level 1989	*Level 1996*	*% change 1990-96*	*Level 1989*	*Level 1996*	*% change 1990-96*
Czech Republic	5050	11.5	7.0	-23	96.9	95.3	-1.7
Hungary	4462	18.0	12.0	-30.6	99.0	99.1	0.1
Romania	1549	34.9	25.0	-24.9	94.9	94.1	-0.7
Poland	3512	22.0	14.0	-28.4	97.9	97.2	-0.6
Baltic States (average)	3017	16.1	18.6	15.8	93.9	91.6	-2.5
Ukraine	976	17.6	24.0	36.3	87.9	82.7	-6.0
Russia	3056	22.0	25.0	13.6	93.0	91.3	-1.8
Kazakstan	1700	25.9	27.5	5.8	91.0	86.0	-5.5
Kyrgyz Republic	366	32.2	30.1	-6.5			
Transition economies average	*2709*	*22.2*	*23.1*	*6.3*	*94.7*	*90.6*	*-4.4*

Source: UNICEF, 1998.

10. Note that the DAC target relates to the *incidence* of poverty not its absolute number, as calculated in Table 3; but this should make little difference to the verdict, as in most countries of the transitional region population growth is close to zero (UNDP, 1998a: 216).

Table 5
Eastern Europe and FSU: predicted attainment of 'social' targets

Countries	***Under- 5 mortality (per thousand)***			***Primary school enrolment (%)***		
(1)	***(2)***	***(3)***	***(4)***	***(5)***	***(6)***	***(7)***
	Level 1996	*Projected level 2015 (attainment of DAC targets in brackets)*		*Level 1995*	*Projected level 2015 (attainment of DAC targets in brackets)*	
		(a) extrapolated growth rates, other explanatory variables as in Hanmer and Naschold (1999)	*(b) growth rate as per World Bank projected level, other explanatory variables as in Hanmer and Naschold (1999)*		*(a) extrapolated growth rates, other explanatory variables as in Hanmer and Naschold (1999)*	*(b) growth rate as per World Bank projected level, other explanatory variables as in Hanmer and Naschold (1999)*
Czech Rep.	7.0	4.5(no)	5.0(no)	95.3	98.5(yes)	97.7(no)
Hungary	12.0	8.5(no)	8.1(no)	99.1	99.5(yes)	99.6(yes)
Romania	25.0	29.9(no)	16.5(no)	94.1	92.3(no)	95.7(no)
Poland	14.0	5.5(yes)	10.5(no)	97.2	99.1(yes)	98.4(yes)
Baltic States (av.)	18.6	25.6(no)	13.1(no)	91.6	89.9(no)	94.1(no)
Ukraine	24.0	33.5(no)	16.5(no)	82.7	76.5(no)	87.8(no)
Russia	25.0	34.2(no)	13.4(no)	91.3	85.1(no)	93.7(no)
Kazakstan	27.5	32.4(no)	22.6(no)	86.0	82.4(no)	90.3(no)
Kyrgyz Republic	30.1	36.7(no)	23.7(no)			
Transition economies average	*23.1*	*25.3(no)*	*14.2(no)*	*90.6*	*80.3(no)*	*94.6(no)*

Sources: 1996 levels of mortality and enrolment from Table 4; other data as follows: *Column 3:* other explanatory variables used by Hanmer and Naschold are: school enrolment rates, HIV prevalence, physicians per 1000 population; *Column 4:* World Bank standard assumption for 'Europe and Central Asia' is 2.4% growth 1998-2000, continued at same rate thereafter; *Column 6:* other explanatory variables used by Hanmer and Naschold are: school expenditure in primary schools.

Notes: * any level of enrolment above 98% treated as 'universal primary education'.

'Social' targets: mortality and education

The DAC targets require child mortality to be reduced by two-thirds and universal primary education to be achieved by 2015. In this context it should be emphasised that one of the major achievements of communism was to take Eastern Europe and the Soviet Union — even the poor parts — close to the achievement of these targets even by the end of the 1980s. As shown in Table 4, the transition economies were in 1989 at an under-5 mortality level of 22 per thousand per annum (about one-seventh of the level in the poorer developing countries) and at a primary enrolment rate of 95%, about twice the level achieved in low-income Africa and South Asia. In Eastern Europe these trends have gone on improving during the transition, but not in Russia and the former Soviet Union, where there has been a deterioration which is the more disturbing for its ability to occur in a middle-income country.

Table 5 shows two projections of mortality and school enrolment rates: one based on extrapolations of the growth rates of the 1990s and the other on the World Bank assumption of constant growth at 2.3%, in both cases in association with the non-income explanatory variables used by Hanmer and Naschold (1999): education, number of doctors and HIV prevalence in the case of mortality, and school expenditure in the case of education. The outcome is that only East European countries make the grade on either projection: Hungary, Poland and the Czech Republic meet the education target, and Poland also meets the mortality target if current growth rates are sustained. But it needs to be stressed that the education target (universal primary education) is absolute, whereas the mortality target (two-thirds reduction in child mortality) is relative, and that such a relative target becomes tougher, the further the level of the target variable falls. Indeed, Britain and the other industrialised countries would almost certainly fail the DAC target of a two-thirds reduction in child mortality by 2015 if the test were applied to them.

Conclusion

We conclude that on the available data it is probable that at most only two of the twenty or so countries in the transitional region will meet the DAC targets on poverty and child mortality, and that only the East European countries will meet the education target. On poverty, in particular, this draws attention to a massive reduction in the ability of the economic system to meet the consumption requirements of the mass of the population. The proportion of people in poverty, even on the dollar-a-day PPP definition, has risen in one decade from the level prevailing in continental Europe to that prevailing in the Middle East and North Africa. We would stress that this does not arise because of inter-country differences in methods of computing poverty levels; it arises if the dollar-a-day

measure, which we have argued probably *understates* the level of poverty in parts of the transitional region, is used for such comparisons, as it is throughout Tables 1-4 inclusive. There are, however, interesting commonalities in the composition of poverty between the transitional and the Afro-Asian regions (relatively high poverty in large families[11] and amongst children), but also contrasts (relatively low poverty amongst pensioners in the transitional region only: see Cornia, 1994; UNDP, 1998a: 17). The UNDP report notes that

> while the economic difficulties of the last seven years have affected the 'old poor', the biggest increases in poverty have been recorded among the 'new poor', i.e youth in search of their first job, uncompensated or long-term unemployed, retrenched low-skill workers, farmers, a substantial number of 'working poor' and a growing number of refugees (1998a:16).

This may have political consequences, not only because of what has happened but also because of how it has happened. Both in rapidly growing Poland and in still becalmed Russia poverty has increased, partly in consequence of a simultaneous increase in inequality. The correlation between inequality levels and ability to meet the DAC targets is one of the strongest findings of the project of which this essay forms a part. This inequality not only of itself makes growth hard to achieve, but builds up stresses between the socially excluded and the socially included which may, as in Russia, increase difficulties of governance. These, of course, in turn precipitate a rush into the black economy and further threaten a return to growth. In such a situation, the political importance of any measures which can reverse the spiral and lead a way towards pro-poor growth needs no underlining.

We have not sought, in this article, to explain how this could be done, but would draw attention in conclusion to two 'old' interpretations, and one 'new' one, of what might be done. From the World Bank's 1990 *World Development Report* it is worth reminding ourselves of the importance of labour-intensity and targeted social safety-nets as instruments for reducing poverty. Wages in the transitional region have generally been too high in relation to productivity to enable transitional countries, apart from Hungary, to achieve a take-off into labour-intensive, export-led growth. But this may change with flexible exchange rates as real wages fall, especially if reforms in the financial sector are successful in enabling transitional countries to emulate the export marketing successes of the Far East. Tax revenue, especially in Russia, has so far been insufficient to allow substantial targeted redistribution of state revenue to the poor, but there is a chance that IMF-inspired reforms, together with financial

11. 'In the Russian Federation 73% of families with three or more children were impoverished' (sc. according to the national poverty line) UNDP (1998a: 17).

deepening and growth in self-employment, might achieve this in future.

The 'new' story is that growing inequality, such as has occurred on a massive scale in the transitional countries during the 1990s, may itself be a cause of poverty rather than being independent of it. The elements of growing inequality to which we refer are: (i) the emergence of an ultra low-wage (and predominantly female) unskilled class, especially in rural areas, as wages come increasingly to reflect rather than conceal skill levels; (ii) the emergence of a poor, under-capitalised and under-financed stratum of the informal private economy as the state sector contracts; and (iii) the emergence of severe poverty among the unemployed, the unskilled, and, especially, children as the welfare state contracts under the pressure of a newly hardened budget constraint (Cornia, 1994; UNDP, 1998a:16). These are perhaps the three factors most responsible for the extrordinarily rapid rise in poverty under the transition, and none of them can be resolved by the expansion of macroeconomic demand on its own, whence the low, and sometimes positive, poverty elasticities observable in a number of transitional countries. These elements are perhaps severest, and responsible for larger numbers in poverty, in Russia[12] and Ukraine, but they are also visible, and responsible for the growth of poverty, in rapidly growing Poland. It is a new insight of the end of the 1990s, already contained in the World Bank Operations Evaluation Department's draft review of the 'new poverty strategies' and expected also to be covered in detail in the World Bank's new *2000/2001 World Development Report*, that the factors which drive poverty are also those which drive inequality and social exclusion. It may well be that any alteration in the currently rather gloomy prognosis for poverty in the transitional countries requires this insight to be incorporated into policy and institution-building.

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