

How Do the Urban Poor Manage in an Economic Crisis?

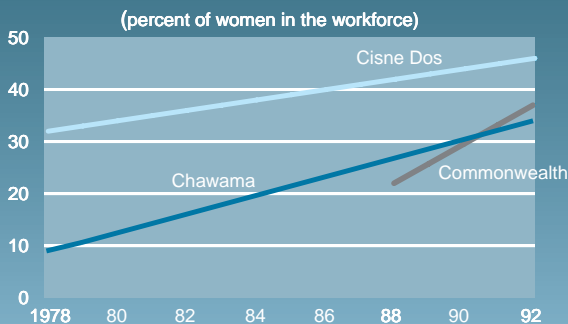
How do poor households in cities react when confronted with deteriorating conditions—when already low incomes decline, a tight job market becomes even tighter, and food and services cost more?

POVERTY reduction policies and programs need to be based on an understanding of how the poor respond in times of economic crisis. Otherwise, however well intentioned, programs may undermine, rather than complement and support, the actions taken by the poor themselves to improve their situations.

Recent World Bank research on this subject reveals that poor communities in very different settings (see box) tend to respond in strikingly similar ways when economic

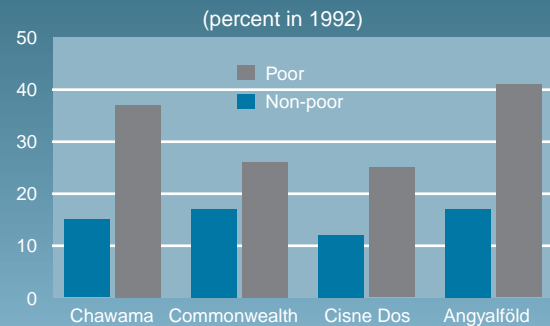
conditions deteriorate. In addition to using income measures to identify poverty, researchers looked at the vulnerability and resilience of poor households in the face of economic adversity. They discovered that some coped better than others and were less vulnerable to external change. This appeared to be, in part, a factor of poor households' assets, both tangible and intangible—namely, labor, human capital, housing and other productive assets, household relations, and social capital.

Women go to work when household incomes decline¹



¹ There are no trend data for Angyalföld.

Poor households pay more of their income for services²



² Services exclude health expenditures.

Source: Caroline O. N. Moser, 1996, *Confronting Crisis: A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities*, Environmentally Sustainable Development Studies and Monographs Series, No. 8 (Washington, World Bank).

Note: Charts are based on data from random-sample surveys of about 200 households in each of the four communities studied. Charts that show trend data also draw on a panel database constructed using the results of similar surveys.

Four poor urban communities

This article is based on the findings of an extensive research project, "Urban Poverty and Social Policy in the Context of Adjustment," carried out by the World Bank's Urban Development Division. The project focused on four poor urban communities that experienced deteriorating economic conditions in the 1980s—high inflation and lower-than-average or declining per capita incomes.

- *Chawama* is about 8 kilometers from the central business district of Lusaka, Zambia. Initially a farming area, it was leased to companies for quarrying in the 1940s. Although quarrying ceased in 1961, quarry workers were allowed to remain in company housing as tenants. The community was incorporated in Lusaka in 1970, and public services were introduced in the late 1970s. Nearly half of the workforce is now self-employed.

- *Cisne Dos* was established in the 1970s on the periphery of Guayaquil, Ecuador by young, upwardly mobile families seeking to acquire plots of land. Community organizations have provided services, but, in recent years, the community's social and economic infrastructure has deteriorated.

- *Commonwealth*, established by scavengers in the early 1960s on a garbage dump on the outskirts of Metro Manila, the Philippines, has had trouble gaining political status. Public services are poor and irregular, and much of the workforce is employed in the informal sector.

- *Angyalföld*, in Budapest, Hungary, is the oldest of the four communities. It was established in the late nineteenth century to accommodate industrial workers. Most of the population today lives in subsidized public housing, and almost two-thirds of the workforce is employed in the public sector.

In some communities, men may emigrate to other parts of the country or overseas in search of jobs, or they may move to the informal sector.

Even though these strategies may raise incomes in the short term, some have serious drawbacks. Child labor, for example, may perpetuate poverty from generation to generation, as working children are unable to attend school and acquire the skills they need for a better future. The emigration of household members may lead to a loosening of family and community ties, making poor households more vulnerable in the long term.

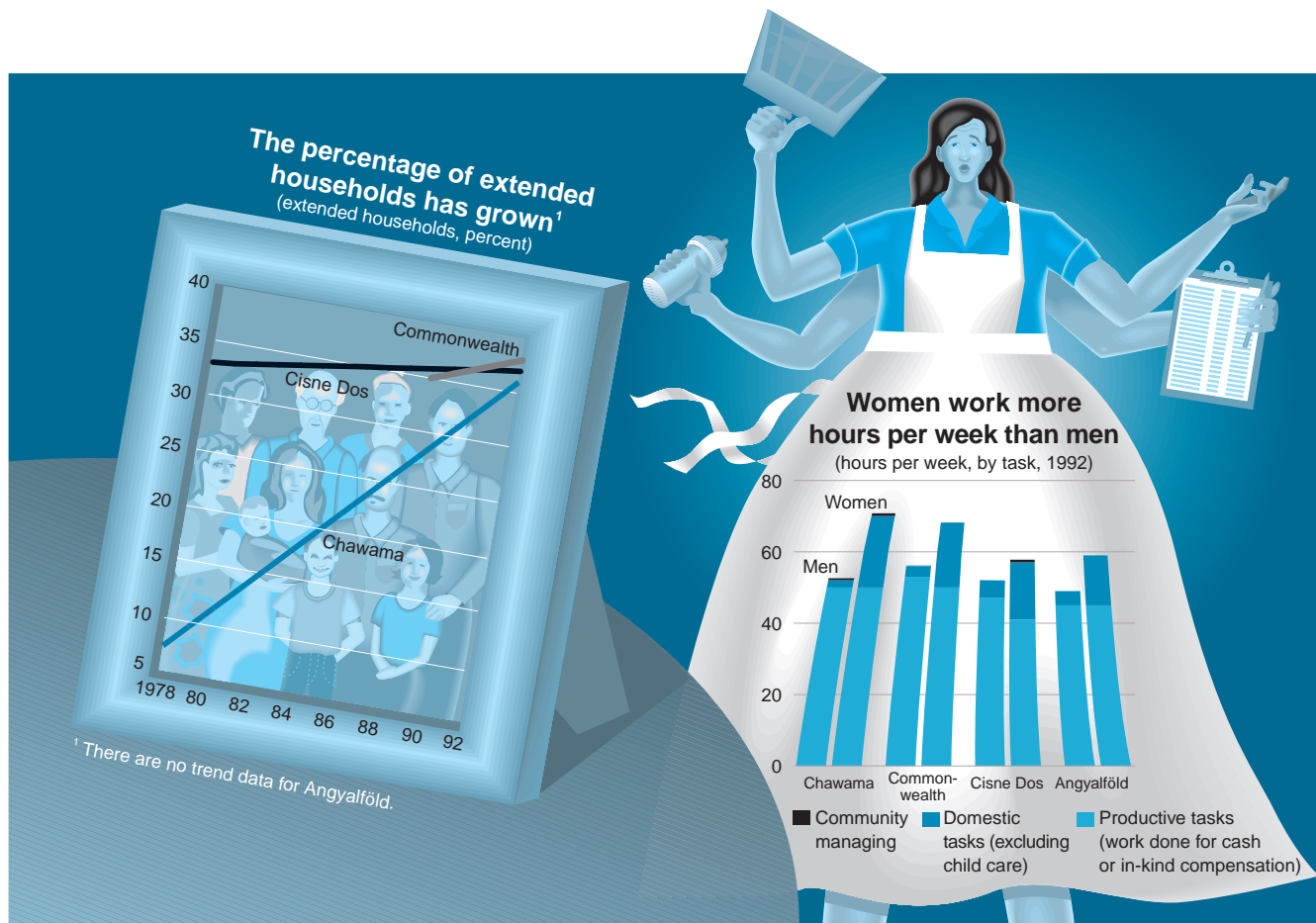
Human capital

During the late 1970s and early 1980s, all four of the urban communities in the study saw improvements in social and economic infrastructure—education, water, transport, electricity, and health care. However, public spending was cut in the late 1980s, and public services declined. Because the poor cannot easily afford to switch to private services, they are more vulnerable to such declines. A greater percentage of household income may be needed to cover services, or

Labor

Labor is the poor's greatest asset. When real incomes decline, poor households often

mobilize additional labor—usually it is the women who get jobs, but in the poorest households, even children may go to work.



household members (usually women) may be forced to spend more time tending to basic needs (for example, fetching water), at the expense of income-generating activities. Human capital suffers when social services such as education are cut back and people are unable to use their skills and knowledge productively because of inadequate provision of such necessities as water, transport, electricity, and health care.

Housing: a productive asset

Housing insecurity—created, for example, when urban households lack formal legal title—increases the vulnerability of the poor. But when poor households have secure ownership of their homes, they often use them as productive assets, particularly when other sources of income are reduced. For example, a house can be used as a base for an enterprise or it can be rented. Or homeowners can sell all or part of their property. But the ability to use housing as a productive asset depends on a number of factors, including the flexibility of the regulatory environment, proximity to utilities such as electricity and water, access to credit, and possession of the skills needed to launch a home-based business.

Household relations

Households are important adaptive institutions for the poor—an intrinsic asset—providing mechanisms for pooling income and other resources and for sharing consumption. In times of economic difficulty, households can act as safety nets, absorbing vulnerable family members. But the structure and composition of households is changing around the world. An increasing number are headed by women. Contrary to the widely believed stereotype, households headed by women are not necessarily poorer than those headed by men. Frequently, only women with independent resources can afford to head households. Extended households—typically consisting of a couple, their children, and other related adults and children—tend to be the poorest. Communities where incomes are declining often see an increase in the percentage of extended households.

Despite the security households provide for their members, there may be disadvantages for women, who often have a disproportionate share of responsibilities. During hard times, they must often take paying jobs while still being responsible for child care and other household chores, but men rarely take on a greater share of household

responsibilities. And, although women often have primary or equal decision-making responsibility for food and clothing purchases, they may find it difficult to budget because men control decisions on purchases of luxury items—for example, alcohol, which is a big drain on household resources in many communities.

Social capital

Social capital—the norms, trust, and reciprocity networks that facilitate mutually beneficial cooperation in a commu-

“Human capital suffers when social services . . . are cut back and people are unable to use their skills and knowledge productively.”

nity—is an important asset. Economic crisis can either strengthen or erode social capital.

Urban squatter communities such as Cisne Dos and Commonwealth, consolidated through long negotiations with political parties and governments, have developed community-based organizations capable of negotiating for improved services during periods of constrained resources. In communities such as Chawama, which is served by top-down delivery systems, such organizations are less developed.

Social capital cannot be taken for granted. The evidence suggests that when households have sufficient resources, social capital is sustained and links are strengthened. In some communities, women have developed reciprocal arrangements to share food, water, cooking, and child care. Poorer households may borrow on a short-term basis from neighbors and nearby relatives. But when assets are depleted, these links are strained. Women need to spend more time in income-generating activities and have less time for community activities; borrowing may cease because of the impossibility of repaying loans. Economic crisis also strains the social fabric in other ways—namely by leading to an escalation

of violence and crime, further eroding trust in the community.

Priorities

The findings of the Bank's research project suggest several priorities for poverty programs:

- Support households in their role as safety nets by focusing on longer-term structural interventions (such as restoring eroding infrastructure), rather than on short-term compensatory measures. And, because many of the poorest households are headed by single mothers “hidden” within extended households, it is important to target such women and their children directly through health clinics and primary schools.

- Alleviate constraints on women's labor supply. For example, to free women up to perform their multiple roles, policymakers need to improve provision of child care, water supplies, and health services.

- Ensure that social capital does not break down. Taking stock of the institutions that already exist at the community level is a necessary first step. Subsequent steps include breaking dependency syndromes, rebuilding trust between governments and communities, and introducing realistic valuations of “voluntary” community work.

- Develop policies that integrate human and social capital. Increasing the economic productivity of the poor requires an approach that fosters individual choice while promoting community participation.

- Pursue further research on the impact on the poor of broader macroeconomic policies and measures, including infrastructure privatization, market deregulation, and labor market restructuring. The allocation of resources within households also needs more investigation. [F&D]

For the full study, see Caroline O. N. Moser, 1996, Confronting Crisis: A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities, Environmentally Sustainable Development Studies and Monographs Series, No. 8 (Washington: World Bank). A shorter version by the same author, Confronting Crisis: A Summary of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities, Environmentally Sustainable Development Studies and Monographs Series, No. 7, is also available in English, French, and Spanish.