

# The Effect of Economic Recession on Poverty With Special Remark To Egypt

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## Abstract

One hundred eighty-seven countries have agreed in the Third Millennium Summit in 2000 at United Nations Headquarters on several objectives to raise the standard of living world, including reducing the rate of extreme poverty in 2015 to half of what it was in 1990. Despite the progress of many countries to achieve this goal, but the economic recession that hit the world has cast doubt on the possibility of achieving this objective as agreed upon. Thus, the hypothesis of the study aimed to be tested is the presence of significant impact of economic recession on poverty. Since most of the economic theory and applied studies, agreed that poverty was affected by both economic growth and the pattern of income distribution, so these variables have been taken into account when testing the hypothesis of the study. And compile time-series data section of 26 developing countries during the period 1990-2007 to study the impact of economic recession (was expressed in a high rate of unemployment), economic growth (was expressed in the growth rate of GDP), the pattern of income distribution (was expressed by Gini coefficient) on the rate of poverty (percentage of the population living at the finish line in the income of 1.25 dollars a day), was confirmed validity of the hypothesis of the study through applying the method of Ordinary Least Squares Robust Clusters. The results showed that the economic recession has significant positive impact on poverty, and the economic growth has significant negative impact on poverty and Income distribution has significant positive impact on poverty.

After testing the significance of the variables on some developing countries, I have studied the evolution of these variables and their relationship to the evolution of the poverty rate in the Egyptian economy during the period 1990/91-2004/05. The analysis showed an inverse relation between the rate of growth of gross domestic product and poverty rate, and positive relation between the economic recession (was expressed in the unemployment rate) and the rate of poverty. But the pattern of income distribution did not have a specific direction on the poverty rate. This was explained by the fact that poverty changes due to the impact of growth and the impact of the distribution.

Results from the previous analysis was true when testing the relation between growth rate of output, and the rate of unemployment, and poverty during the period 2004/05-2007/08, while the data for Gini coefficient was not available during this period. Consequently, it was expected the increase of poverty under the economic recession due to the increasing of unemployment rate and the decreasing of growth rate in the Egyptian economy in 2008/09.



Therefore, the goal of poverty reduction at target rates is questionable under the existence of economic recession. The results of measurement guide us for how to reduce poverty in developing countries, including Egypt. This can be achieved through increasing the growth rate, and stimulating the level of economic activity, and work to improve income distribution. However, it is difficult for developing countries to reduce poverty through economic recovery and higher growth rates in the short run. This is due to the roughness of the current economic recession. Developing countries can follow some policies that has a quick impact on raising the standard of living of the poor, and reducing inequality in income distribution. These polices include transfer financial assistance and subsidies to the poor category.

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