

Poverty in a Global Economy

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Institute**

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Hungry people are almost always poor, and very poor people are chronically hungry. Economic problems and policies that contribute to poverty are among the basic causes of hunger...

Growth and Inequality

Economic growth has often been held up as the primary goal of economic policy, especially since the 1960s. At times, "development" has almost been equated with economic growth. Many economists and governments expected poverty and other social problems to be reduced as economies grew.

Many growing economies widen the gap between rich and poor people. That leads some to accept growing inequality, hoping that growth will eventually lift greater numbers of people out of poverty.

However, studies of eight East and Southeast Asian countries show that it is possible to have both economic growth and decreasing inequality if the right policies are in place. In South Korea, for example, where per capita income has grown rapidly, the most affluent fifth of the population has about seven times as much income as the poorest fifth. The ratio has narrowed slightly over the past two decades; poor people have shared in the rapid growth. By contrast, Brazil's Gross National Product (GNP) was twice Korea's in 1970. Its economy has grown about half as fast; by 1990 Korea's GNP was twice Brazil's. But the ratio between Brazil's poorest and richest fifth is more than 30-fold. Poor Brazilians have scarcely benefitted from growth and remain mired in deep poverty.

The Asian countries reduced, or at least did not increase, economic inequality by giving poor people the incentive and the means to improve their own earning power: land reform and support for small farmers in Korea and Taiwan; high school education, especially for women, in Singapore; and manufacturing for export that raised the demand for unskilled factory workers in Malaysia, plus a massive affirmative action program for the poorer ethnic groups.

Declining inequality and economic growth support each other in three ways:

- As poor families' income increases, they invest more in "human capital" -- more education and better health care for their own children.
- Improved health and better education, which usually accompany decreased inequality, increase the productivity of poorer workers and their communities and nations; and

- Greater equality contributes to political stability, which is essential for continued economic progress.

Globally, we have accepted gross income inequality. The wealthiest one-fifth of the world's people control about 85% of global income. The remaining 80% of people share 15% of the world's income. The poorest one-fifth, more than a billion people, receive only about 1.4 percent. The ratio between the average incomes of the top fifth and the bottom fifth of humanity is 60 to one.

Sustainable Development

An alternative concept -- "sustainable development" -- has emerged as advocates of international justice, environmental protection, peace, sustainable population growth, democracy, and human rights have increasingly come to see that their goals are interlinked. Several examples:

- Saving the rainforests of Brazil will require dealing with the land hunger of poor Brazilians.
- Reducing rapid population growth in developing countries will require improving living standards, especially for girls.
- Durable solutions to poverty and hunger in the United States will require social peace, broader democratic participation, and a shift to economic patterns that will be environmentally sustainable.

Sustainable development is defined differently by different people. Bread for the World Institute has come to define it in terms of four interconnected objectives: economic opportunity for poor people, meeting basic human needs, environmental protection, and democratic participation. An essential element is the reduction of hunger and poverty in environmentally sound ways.

Sustainable development is gaining public and political support as the prime goal for economic policy. Economic efficiency and growth often contribute substantially to sustainable development. Increases in productivity and income for African peasant farmers are certainly needed. Further improvements in the well-being of already well-off people can also be part of sustainable development, if they are not environmentally harmful.

Economic growth is one means, but not the only way, to more fundamental human ends. This is an obvious point, but the implications are far-reaching.

Four conclusions may be drawn from the discussion thus far:

- Wide disparities in income exist both between and within nations.
- Poverty and hunger at the household level is a consequence both of national income and the way it is distributed.
- Poor nations, to reduce poverty-related hunger, need both economic growth and steps to reduce inequality; and
- Many countries have improved poor people's well-being by focused social programs, but some of these programs are threatened by poor economic performance.

A Global, Knowledge-Based, Market Economy

We live in a time of profound and rapid economic change. The well-being of billions of poor and hungry people now and in the future depends on the evolving nature of the world economy.

Three revolutions during the past two decades have transformed national markets into a truly global economy:

- The evolution of a single worldwide system of producing and exchanging money, good, and services.

- The shift from a resource-based economy to a knowledge-based economy, and
- The acceptance of market-based economics as conventional wisdom by most political leaders throughout the world.

First, all nations are increasingly tied together into a single worldwide production and exchange system. Instantaneous electronic transfer of information and capital funds, controlled by transnational entities, permits "on-time-delivery" of components for assembly wherever labor costs are lowest or markets nearby.

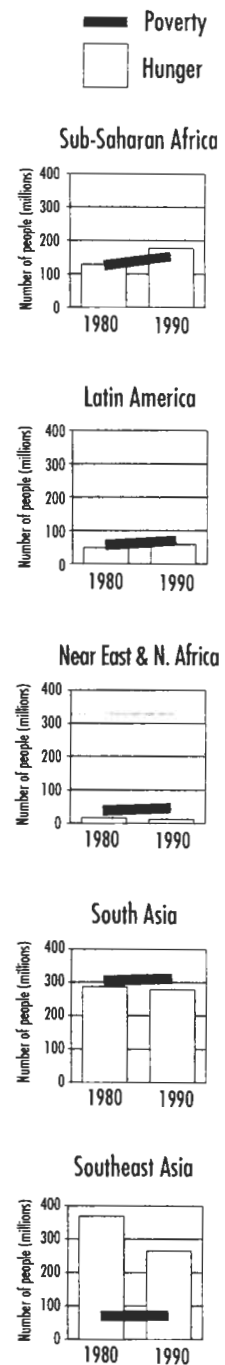
The shift of manufacturing assembly and some service tasks to low-wage areas offers the possibility of more jobs and higher wages in countries or regions with abundant labor. But this same shift makes it more difficult to maintain jobs and wage levels in high-wage countries such as the United States, where real wages have declined for most workers in recent years.

Second is the shift from a resource-based economy to a knowledge-based economy. In this new economic world, wealth and employment result less from the processing of raw materials and more from the ability to process information of "manipulate symbols." The new billionaires are named Gates (Microsoft) or Milken (corporate mergers); the new companies, Calgene (biogenetics) or Boston Chicken, as compared to Rockefeller (Standard Oil) or Krupp (armaments).

As assembly jobs move to low-wage areas or are robotized, semi-skilled workers must learn and re-learn new skills every few years, or face low-wage jobs in competition with poorly educated or poorly-trained workers. The keys to economic stability are sound basic education, ever-rising skill levels, and the ability to adapt.

The shift to knowledge-based economies leads to enormous gains in productivity -- accomplishing more with fewer resources. These gains, if equitably shared, can greatly improve the well-being of humankind,

Number of Poor and Hungry People 1980 and 1990 -- Source: ACC/SCN; Institute for Development Studies



bring relief from some menial chores, and relieve some environmental pressures. But if the gains are not shared, the new knowledge systems could be as socially destructive as monopolies and trusts were in an earlier industrial era.

The third shift in the global economy is the acceptance of market-based economies as conventional wisdom by political leaders almost everywhere...

Countries shift to market economies [for three basic reasons]:

(1) because the nations that have well-developed market economies have the greatest wealth;

(2) because centrally planned economies have not been successful most places they have been tried; and

(3) because governments are persuaded by the rapid growth and dramatic reductions in poverty since the 1950s in the four "Asian Tigers" -- Taiwan, South Korea, Hong Kong and Singapore -- and current similar gains in Indonesia, Malaysia, and Thailand.

Some observers are ready to add China to this list because of the almost unprecedented growth since 1978,

coinciding with the introduction and acceptance of market practices.

Hopes and Fears about Relying on Markets

Markets do many tasks well. Markets encourage innovations (such as smaller, faster computers) that usually benefit consumers. Markets ration goods such as clothing better than central planners, and may do as well as bureaucracies in some emergencies.

Markets are sometimes fairer to poor people than governments, which are often manipulated by privileged groups. One of the major goals of ORAP in Zimbabwe [Organization of Rural Associations for Progress, an intermediary NGO serving rural people's groups] has been freedom from state control [of grain marketing] so that villages can sell grain to each other.

Nearly every proposal for sustainable development relies on a core commitment to encouraging the growth of small business. Most informal economic activity results from the efforts of small entrepreneurs who cannot find a place in the formal economy. If they have access to good roads, markets, and credit, small farmers and small business people can create their own income-earning opportunities in market economies.

Large, sophisticated corporations also perform valuable market services: assembling shiploads of grain for emergency food aid, for example, or maintaining inventories of repair parts for 20-year-old tractors.

But markets, by themselves, will never eliminate hunger. Poor people and their allies are

often skeptical of grand claims for the "magic of the marketplace." The persistence of massive hunger in a country as wealthy as the United States demonstrates that markets must be complemented by public interventions to reduce hunger and poverty.

Markets are also subject to abuse. Wealthy landowners, private and corporate businesses, and transnational corporations sometimes fail to treat their workers, suppliers, or customers fairly. Landowners and corporations may achieve gains in collusion with one another or with their own and foreign governments. Sometimes they rely on military support for protection [of unjust practices].

The principal defense against market failures and abuses of markets lies in widespread and well-informed participation in public policy decision-making. Corporations and wealthy individuals rely on laws and regulations for their businesses -- protection of [ownership] title and enforcement of contracts, for example. When society grants such protection, it should also insist that the beneficiaries behave responsibly. The importance of international, as well as national, rule-making is obvious in a global economy. International associations of workers and non-governmental organizations can play a crucial role in bringing the perspectives and interests of citizens to the process.

Businesses and other private actors in markets share an interest with anti-poverty advocates in healthy, well-educated workers, stable and crime-free communities, strong public infrastructure, and raising poor people out of poverty. The terms for sharing costs and responsibilities for these goals are decided in public policy debate.

Poverty Impact of Income Distribution. Selected Countries (1990).

Source: World Bank

Country	Real GDP PPPS (1990)	Income Lowest 20%	Income Highest 20%	Ratio High 20%/ Low 20%
Thailand	\$5,890	\$1,796	\$14,931	8.3
Brazil	5,250	551	17,719	32.1
Indonesia	2,970	1,292	6,282	4.9
Bangladesh	1,230	584	2,374	4.1

Distribution of Global Income, 1991. Source: UNDP



Markets alone do not have the capacity to fairly allocate some goods and services -- [for example] elementary education, health care, public safety, or passage on public streets. In actuality, everyone [in "market economies"] lives in a mixed economy. [In the United States, for example], 42% to 45% of U.S. gross domestic product in recent years has been apportioned directly by governments -- federal, state and local. This fraction ranges up to more than two-thirds in Scandinavia and below one-quarter in Japan, among industrial countries. The range is lower in developing countries, well below 20% in Mexico and Thailand, up to 30% in India and one-third in Botswana.

Thus, shaping a global economy that lifts people out of poverty and eradicates hunger requires a commitment to the responsible exercise of two functions:

- Collection and allocation of public resources, especially for investment in human resources; and
- Creating appropriate, effective guidelines for markets.

The reality, of course, is much more difficult than the assertion. Powerful political actors, as well as powerful market actors, often sway policies to their own self-interest, whether at the local, national, or international level. Those political forces that struggle with and on behalf of poor people are often unclear or divided on issues of national and international economic policy.

But as the global, knowledge-based, market economy extends its influence into the far corners of our planet, people of good will have only one option: to help draft and implement policies which will direct a sizeable portion of this economy toward creating income-earning opportunities for poor people.

Policy Changes to Create Income-Earning Opportunities

On a global scale, the single most important strategy for alleviating poverty and hunger is creating opportunity to earn

enough -- through jobs, farms, or businesses -- to meet basic needs and permit human fulfillment.

Each of the following policies and policy shifts could be taken within or at the margins of the market-oriented political economies which prevail in all industrial and many other countries. Each has been part of a successful development package in one or more countries and is an announced goal of most other countries. The key to the success of all of these policies is widespread participation in decision-making, especially by poor people and their allies.

These policies fall into the following categories:

- Investment in people;
- Agriculture and food production;
- Creating a framework for sustainable development;
- Focusing international financing.

Investing in People

Health Care and Nutrition. Investment in basic health care and improved nutrition yield huge dividends. Healthier children learn better. Healthy adults work better....

Education. Investments in basic education complement those in health care and improved nutrition, and yield huge payoffs in both developing and industrial nations... Cognitive and other skills improve productivity, enable better management of resources, and permit access to new technologies. They also enhance participation in democracy.

A study of 98 [developing] countries for the period from 1960 to 1985 showed Gross Domestic Product gains up to 20% from increases in elementary school enrollment, and up to 40% for increases in secondary enrollment. In allocating educational resources, the highest payoff is for elementary education, because it reaches the most children....

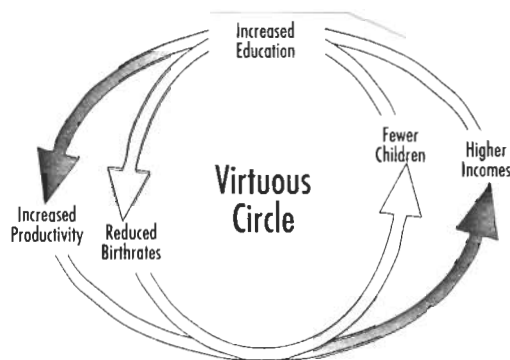
Agriculture and Food Production

Access to Land. Widespread land ownership by small farmers usually contributes directly to food security and improved environmental practices. The more successful land reform programs, as in Korea and Taiwan, have provided at least minimum compensation to existing landlords.

Equitable Prices for Farm Produce. In many developing countries, state-run marketing boards have taxed agriculture by setting farm prices very low and retaining for the government a large share of the value from farm exports. Such disincentives to farmers may have been the greatest single barrier to successful development in many poor countries where agriculture is a large share of the national economy. As farmers' incomes rise, they expand their purchases of [things they don't or can't produce themselves], providing an important source of non-farm employment. In many poor nations, much of domestic savings must be accumulated within agriculture, since it is such a large share of the economy. Such savings are important for increasing agricultural productivity and to help finance rural non-farm businesses.

Eliminating Agricultural Export Subsidies. The United States and the European Union support their own farmers in ways that generate surplus crops.

They also subsidize exports of these crops, driving down prices around the world. Developing country farmers, who usually are not subsidized, cannot match the low prices, even in their own country. Local agriculture falters, and with it, the whole process of development. These agricultural export subsidies should be phased out as quickly as possible.



Source: Based on Birdsall and Sabot.

ministrative bodies, and accessible information networks.

Stable Currency and Fiscal Policies. Neither international nor domestic investors, including small farmers and microentrepreneurs, are likely to invest in countries in which the political or economic environment is unsettled. High inflation or continuing trade deficits, which often go together, discourage needed investments and may even drive out domestic savings.

Twenty-nine African countries undertook structural adjustment programs during the 1980s. Often, these reforms fall heavily on poor people, as social service programs [and government jobs] are frozen or cut back to help balance national government budgets. Other possible measures to reduce budget or trade deficits -- more progressive taxes, cuts in military spending, or curtailing luxury imports -- have not always been pursued with equal vigor. Economic reform programs, some of which will continue to be necessary, should be revamped to reduce the costs and increase benefits for poor people.

Effective Progressive Tax Systems. Effective progressive tax structures are key to sustainable financing for investments in human resources and infrastructure. Taxes based on ability to pay are also key to stabilizing or reducing wide disparities in income distribution in both rich and poor countries. Such tax systems are difficult to enact where wealth and political power are controlled by a small minority.

Incentives for Jobs-Creating Investments. The Asian countries which have grown so rapidly have all placed emphasis on labor-

intensive exports, some in joint ventures with overseas partners, some with investments solicited from abroad, but many with strong subsidies from within their own economies. This is a distinct departure from their more general commitment to following market signals.

A primary target for jobs-intensive investments will be processing operations for primary products -- whether for domestic consumption or for crops [forestry products] or minerals now being exported.

Focusing International Financing

Direct Foreign Investment. Some developing countries are attempting to create an economy stable enough to attract direct foreign investment. They usually negotiate for investments which will create decent jobs for newly educated workers.

Loans from International Financial Institutions. For the poorest countries, a major source of outside finance will continue to be the international financial institutions -- the World Bank, regional development banks, and the International Monetary Fund. The conditions which accompany their loans are a major influence on the national policies of borrowing countries. In addition, these institutions often influence private banks and foreign and domestic investors. These multilateral lenders, as well as government-to-government aid, could be a model by focusing most of their resources on human development and generating income-earning opportunities for the poorest people in poorer nations.

Forgiveness of Unmanageable Debt. Many of the poor countries have large debts left over from the 1970s. Large payments of interest and repayments of principal severely curtail poor nations' capacity to save and invest, or even to meet current basic needs. Unpayable debts should be forgiven or dramatically rescheduled. Creditors are more likely to get part of their money back if countries that are making

Creating a Framework for Sustainable Development

Access to Credit. Equitable access to credit for small farmers and small businesses is probably the highest priority for allocation of domestic savings or outside investment. Training in resource and business management is often part of successful credit programs.

Adequate Physical Infrastructure. Creating and maintaining an adequate physical infrastructure is essential to a viable, expanding economy. Infrastructure needed in all areas includes safe water, sanitation, electricity, and communications networks. In addition, farming areas need farm-to-market roads and storage oriented to domestic production and, if appropriate, exports.

Stable Legal and Institutional Frameworks. Sustainable development requires a stable legal framework. This includes assured property titles, enforceable contracts, equitable access to courts and ad-

serious efforts to achieve economic recovery are given some debt relief.

The American Dream: Diminishing Expectations

For the first time in United States history, young adults face lower economic expectations than their parents. Real wages average the same as during the early 1970s. Total compensation per worker has climbed slowly with the increasing value of work-related benefits -- retirement plans and especially health care. But higher-paid workers have garnered a larger share of the increase. Real income for the bottom 60% of U.S. residents has declined.

The prospects for younger and future workers are further clouded by the projected costs of future benefits for elderly people and ballooning public debt. As the average age increases, relatively fewer workers will pay for the benefits for a much larger number of retirees. Promised Medicare and Social Security benefits, plus interest on the public debt, by themselves, would require people born after 1990 to pay

three-quarters of every dollar earned in federal and state taxes. This is clearly impossible, economically or politically!

The high expectations of U.S. citizens are based on a century of growth in worker productivity. Output per worker grew at an average rate of nearly 2% per year from the 1860s until the early 1970s -- unprecedented in all human history. Workers shared these productivity gains, especially during the period of strong labor unions and supportive federal legislation from 1936 until 1971.

From this perspective, the post-World War II period was an almost golden age -- nearly a quarter century of increasing real wages, based on increasing productivity. Not only did the economy provide opportunity for all who wanted to work, but the country's wealth permitted the Great Society programs of the 1960s. The U.S. poverty rate dipped to an all-time low of 11% in 1973.

By the early 1970s, several long-developing changes matured. Since then, several new factors have developed. Among them:

- A cartel among oil-producing countries raised oil prices and maintained them at high levels throughout the 1970s.
- Europe and Japan, nurtured in part with U.S. [post-World War II] assistance, increased their productivity and became economic competitors, even in highly sophisticated products such as electronics and automobiles.
- Four Asian economies (South Korea, Taiwan, Singapore, and Hong Kong), with a combined population of about 75 million people, and other Asian countries with much larger populations also became more competitive with the industrial countries, notably in less sophisticated manufacturing.
- Worldwide systems of production emerged, shifting some labor-intensive manufacturing and assembly jobs to low-wage regions;

- An explosion in the ability to manipulate knowledge placed a premium on new skills and ability to adapt.

In this new setting the United States has failed to keep pace in several key aspects:

(1) Workers performing routine manufacturing and assembly tasks, some highly skilled, lost their jobs to automation or to lower-wage workers, mostly overseas; many have been forced to take lower-wage jobs.

(2) Gains in output per worker have declined sharply, average only 0.7% since 1970, in contrast with productivity gains of 3.3% in Japan and similar increases elsewhere during the same period.

(3) People in the United States have failed to scale back consumption to match income; household, business and government debt all increased rapidly during the 1980s. Response to the recession of the early 1990s has reduced the growth of private debt, but government debt continues to grow.

(4) The educational system has not kept pace with changes -- achievement scores have declined and drop-outs and functional illiteracy have risen.

(5) During the 1980s, high debt and high interest rates favored wealthy investors, whether in the United States or abroad. Policy changes reduced the share of taxes

JOBS, NOT CASH, TO HAITI: "Left to itself, there is little reason to think that the Haitian economy will substantially improve...Should we just leave a check and get out?...We would do much better by the people of Haiti, and at less cost to ourselves, if we were to substitute jobs for aid. And the easiest way to ship jobs to Haiti...that will fit with the labor force and wage structure...is to shift to Haiti a small but substantial (by the standards of a small island) amount of the U.S. quota on apparel imports. Currently...the lion's share of those quotas is held ... by the not-so-poor-anymore nations of Asia-Pacific, including...Hong Kong, Taiwan and Korea, where national income is well over 10 times that of Haiti...Shifting some of that quota to Haiti would result in the almost instant creation of real jobs...that are likely to last for many years... Further, a shift to neighboring Haiti of textile quotas from Asia will likely have a positive effect on the U.S. textile industry, as the basic textiles will be sourced from the United States and not from Asian producers." -- *Univ. of California professor Stephen S. Cohen in The Washington Post (Jan. 6, 1995)*

paid by wealthy individuals and businesses, and the cost of public spending for the middle class was not curtailed.

(6) The United States rapidly expanded military spending in the 1980s while efforts to reduce deficit spending blocked needed investments in human resources.

The cumulative impact of these changes emerges most dramatically in the data on income and poverty; income disparity has increased. In 1992, the last year for which information is available, 15% of U.S. residents -- 38 million people -- lived below the poverty line. This is the highest proportion since 1966, and the highest number since 1962, before the Great Society programs and the peak of U.S. productivity gains.

The economic changes have not all been negative. Some innovators, owners, and workers skilled in the new information-based technologies have gained from the shifts to a more knowledge-based economy. Some industries, such as steel, have been restructured to improve productivity.

Policy Dilemmas

The United States is still the wealthiest country on earth. But the burgeoning costs of debt, health care, and Social Security must be brought under control. Environmental constraints will force changes in the use of

irreplaceable resources and the amount of wastes generated. The nation faces wrenching policy choices.

Politically popular visions of the future center on regaining the economic growth momentum of the 1950s and 1960s. Programs of education and retraining would be coupled with incentives for saving and investment in knowledge-based, globally competitive businesses. These new ventures would generate enough income-earning opportunities for all people in the United States willing and able to work. Increasing productivity and an expanding economy would also finance environmental-protection and progress against social problems.

Alternative visions give higher priority to environmental sustainability. Public policies at local, national, and international levels would support individuals and communities as they reclaim influence and resources from giant corporations and central governments. Most such visions presume reduced economic activity overall and increased sharing of wealth.

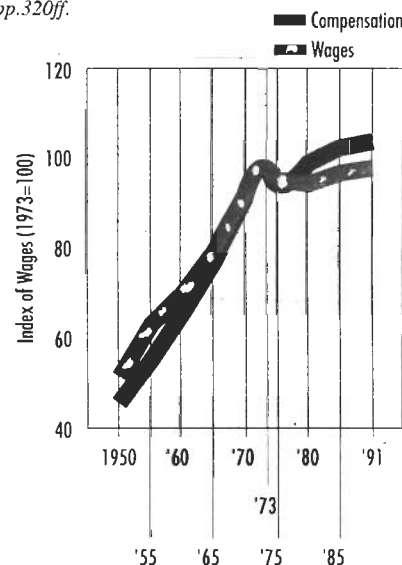
Regardless of which of these two visions of the future we pursue for the U.S., it makes sense to invest more in people, assuring adequate nutrition, education, health care, and opportunity for retraining as job needs change; and to encourage employment, including public sector jobs, which provide quality child care and expand low-income housing.

Sources of Hope and Optimism

In the face of persistent or increasing poverty and hunger in both the developing and industrial worlds, and confronted with the stubborn persistence of entrenched power and privilege, it would be easy to abandon hope or resign to cynicism.

But it is possible, although immensely difficult, to create economic opportunity for two billion workers in ways that also enrich family and community life and protect and enhance the environment. If we pause to look back at where we have been

Yearly Compensation for U.S. Workers, 1950 to 1991. Note: "Wages" means take home pay. "Compensation" includes fringe benefits such as health insurance. Source: Peter G. Peterson, *How to Rescue the Economy...*, 1993, NY: Simon & Shuster, pp.320ff.



and at the directions we seem to be headed, we can see reasons for hope.

First, after nearly a half century of attempts to improve economies and communities -- including mistakes and disasters -- governments and citizens, in poor and rich nations, understand better now what works to relieve poverty and hunger, and what does not.

Second, due to the growth of the environmental movement across the globe -- as exemplified in the 1992 U.N. Conference on the Environment and Development in Rio de Janeiro -- commitment to sustainable development is growing rapidly.

Finally and most important, underlying all hope is the faith and persistence of poor people themselves.