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Against poverty

by

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Introduction

The United Nations has a long history of fighting poverty. In the Charter it was covered under the caption promoting 'social progress and better standards of living in larger freedom'. From the first International Development Decade for the 1960s, it was a main pre-occupation of the work of the Economic and Social Council. As more information became available in time, thanks to the work of the United Nations and its Specialised Agencies and national organisations, the eradication of poverty came to be made a specific objective of United Nations Programmes and of national governments. The statement of the Prime Minister Indira Gandhi before the General Assembly in 1974 in which she emphasised the importance of 'garibi hatao' [abolish poverty] in India brought attention of the world community to the urgent necessity to address this problem, the world over. In the following years, much information was collected on the characteristics of poverty and its causes and many recommendations were made for its alleviation and eventual abolition. It received magnified highlighting at the World Summit for Social Development in Copenhagen in 1995. The abolition of poverty is one of the most important Millennium Goals.

The first United Nations Decade for the eradication of poverty is an outcome of these many endeavours over several decades. It formalised the view of poverty in many dimensions: hunger and malnutrition, poor housing and sanitation, access to assets including human capital, powerlessness because of relative deprivation in many respects, regional and gender differences in the incidence and how poverty may both cause and result from civil unrest and strife including terrorist activities. The importance of avoiding long term damage to the environment has been well emphasised in the relevant documents. To ensure transparency, accountability and that policies and programmes respond closely to the needs of the poor anti-poverty programmes need to be designed and executed in close association with those that benefit. Because of the many sided nature of poverty, measures to eradicate poverty had to be designed to combat poverty were designed to address them all. In each country both because of differences in circumstances and the relative scarcities of resources, priorities would be, per force, differently arranged.

In academic inquiry, the fight against poverty is as old as the discipline. Adam Smith's book is *An Inquiry into the Causes of the Wealth of Nations* In the years immediately after the 1939-45 war, the emphasis was on reconstruction and avoiding the sort of economic disaster which befell the world economy after the 1914-19 war. And there was little attention to questions of poverty, more so in what came to be known as developing countries. A part of the problem was lack of systematic information, although evidence of poverty was randomly available every where in poor countries. Pioneering studies were carried out in India, where concepts were clarified and empirical data collected in many field surveys. Dandekar and Rath's paper in the *Economic Weekly* deserves mention. Other countries followed suit. Policies were formulated and implemented to alleviate or abolish poverty. Academic inquiries into the nature of poverty were well ahead of others in bringing light the many sided nature of poverty. The development of the Human Development Index in the annual UNDP Human Development Reports is the best short summary indicator of the development of these concerns. Policies were designed and programmes formulated and implemented to alleviate or abolish poverty.

The multi-lateral financial institutions, the World Bank and the International Monetary, were late to start but contributed heavily with their larger resources than in the rest of the United Nations system to both collect data in developing countries [Living standards Surveys] and the discussion of concepts and policies, especially in its periodic Development Reports on poverty. Its encouragement of Poverty Reduction Strategy Papers [PRSPs] more recently have had the effect of propagating poverty studies and the examination of direct anti-poverty programmes in countries. The emphasis on participatory development in these documents is a deep contrast to their earlier designs for safety nets. That change is in great measure due to both academic inquiries and more directly to the ideas espoused at the World

Summit for Social Development and the subsequent negotiations in the United Nations. The United Nations Development Programme did much useful work for the measurement of the incidence of poverty and bring out complex interrelationships among poverty and those other aspects of low income life that go to strengthen bondage to poverty, ill health, illiteracy and discrimination on all sorts of grounds.

We now know a great deal more about poverty and ways of alleviating and abolishing it than we did fifty years ago. Yet it would be wrong to say that we know how in the particular circumstances of any given country, development policies can be formulated and implemented to eradicate poverty in a given period of time. In that respect, the time frames and objectives laid down in international agreements about the abolition of poverty must in many instances end in disappointment. We are yet far distant from a vaccine or even a medication against mass poverty.

What is the experience?

Widespread poverty, as now prevalent in most developing countries, is a matter of history in OECD countries. There are pockets of poverty, in times and places large, in these economies but no mass poverty endemic over long periods of time. Now we know that poverty was abolished in these economies as incomes rose consequent upon economic growth. This process is well documented now, thanks to the pioneering work of Angus Maddison. About 1500, per capita income in China was, if anything, slightly above that in Western Europe but every one everywhere was, on average, poor with an income of about \$500 in 1985 prices. However, by 1950 per capita income in China was about the same as in 1500 and in Europe [and its offshoots] about \$5,000. In India under colonial rule per capita income had fallen substantially between 1900 and 1950 to begin to rise slowly from that year. It is that process of persistent economic growth which began with higher momentum in about 1820, which helped make poverty history in OECD countries. It is stagnation in much of the developing world that kept their levels of poverty no better than in 1950 than 500 hundred years earlier. Indeed economic decline in India 1900-50 distinctly raised levels of poverty in that country. Growth in population during the last several decades unrelieved by emigration on a scale adequate to release pressure on economic opportunities in these economies raised the number of people in poverty to very high levels, to count in billions.

The most instructive lesson we have learnt during the last ten years is that poverty is reduced by fast economic growth and that poverty is sustained and made more severe by sluggish or negative growth. It comes against a lot of fancy intellectual footwork about increasing choices and opportunities, a lot of rhetoric about pro-poor growth and a lot of heart burn about empowerment. We should have known that that simple truth was both simple and most logical. How do people cease to be poor? When they have productive employment, whether for themselves or under others. In contrast, the loss of employment as in the Great Depression in Europe and America or during the East Asian countries from mid-1997, in Latin America between 1997 and 2002 or Russia after 1991, engendered, made more acute and spread poverty. The failure of economic growth and consequent employment growth cause persistent poverty. A similar effect follows from a fall in prices of major export products because employment ceased to be as productive as earlier under higher prices. Similarly, income may be sucked away by higher prices for imported oil, making every one in importing countries poorer and pushing more people below the poverty line. Employment ensures income and with income they have more choices and opportunities. Fast economic growth is pro-poor growth and economic stagnation and decline are against the poor. Those who have incomes have economic power and with that political influence and power.

In fact, it is not simply more employment that matters, but more productive employment for more people. Virtually all poor people are employed and earn some income; however this income is too low to permit them to live above poverty, to exercise those freedoms which economic security brings and to have the power to influence decisions that affect their lives. They can earn high incomes only if their output rises above a certain level. Since all output produced by employees do not accrue to them [the idea

of surplus value], total output or GDP will have to rise by a margin substantially above the rate of absorption of labour in more productive employment. Subject to some considerations, the faster the rate of growth of GDP, the faster the rate of absorption of labour and faster the reduction of poverty. However, the larger the pool of unemployed labour, the lower the gain in wages, given the same rise in production. Competition among workers will pull down wages and delay the reduction of poverty. Consequently, where poverty is widespread, it takes much longer to eradicate poverty than elsewhere. There can be striking rises in productivity in a few enterprises but none or little in most parts of the economy, as in Chile during recent economic reforms, making no contribution to poverty reduction.

It is argued in some quarters that productivity raising output works against reducing poverty. Imagine that output were to rise in such fashion that it comes out entirely from the employment of more labour and at lower output per worker than prevailing., in other words the percentage gain in employment is higher than the percentage gain in output. This would of course result in a rapid increase in employment but productivity and wages would be below that which prevailed earlier. Then poverty would increase. If poverty is to fall there must be gain in employment along with a rise in productivity. It is a truism that higher the gain in productivity out of any increase in GDP, the lower the increase in employment. However, you cannot have persistent growth in GDP at rates ranging from 6 per cent to 12 percent, without increasing employment. Persistent growth in labour productivity alone in that range is not normal. In the recent growth spurt in the United States when GDP grew by 4.08 per cent per year from 1995 to 1999, which is better documented than in most other economies, labour input increase by 2.18 per cent per year and the balance was accounted for by other factors. [See Dale W. Jorgenson, Information technology and the U.S. economy, American Economic Review, March 2001.] Persistently high growth in output over decades must of necessity raise employment and wages and reduce poverty in any economy.

That is how poverty became history in OECD countries. In the world as a whole 94 per cent of the people of the world were in poverty in 1820. The proportion fell to 82 per cent in 1910, 72 per cent in 1950 and 51 per cent in 1992. [See Francois Bourguignon and Christian Morrison, Inequality among world citizens, American Economic Review, September, 2002.]. Very different estimates by the World Bank puts the percentage of poor people in the world in 1990 at 23 percent and in 2000 at 18 per cent. Until recently, the reduction in poverty was almost entirely in the faster growing OECD economies. As these economies started to grow fast from about 1800, there were massive shifts of labour from agriculture to industry, from 40 percent in 1820 to 20 per cent in 1890 and 2 per cent in 1989 in UK, from 40 percent to 33 per cent 1820 to 5 per cent in 1989 in the Netherlands. This was because labour productivity had to increase in all sectors to raise workers from poverty. There are limits to the rise of labour productivity in agriculture imposed by the elasticity of demand for its products, economies of scale and diminishing returns to land. In an economy where labour could move freely into higher earning occupations, workers moved from agriculture to industry and services. Capital displaced the labour so required in industry and services to keep up the earnings of those who remained in agriculture. The process was helped immensely by large scale emigration to the new found lands of America and Australia. As economies expanded wages were bid up to meet the scarcity of labour. Machines were invented to replace labour, raising labour productivity and eliminating poverty. To make matters even easier, the rate of growth of population in the 16 OECD countries from 1900 to 1989 was 0.9 percent. With 3 per cent growth in output during the same period, there was an annual increase in income per person of 2.1 per cent. Persistent growth of that nature was the mechanism that made poverty history in the developed economies. By way of contrast, population in Latin America, which received some of the emigration from Europe, increased by 2.1 per cent during that period. [These figures are from Angus Maddison, Dynamic Forces in Capitalist Development, Oxford University Press, Oxford. 1991.]

The final touches were given by policies for social protection, very early in Europe, with New Deal Policies in US in 1936 and Beveridge reforms in Britain after the last European War. Those poor

because of unemployment, old age and heavy burdens of looking after dependent children were all supported by society to receive an income adequate to keep them out of poverty.

Recent experience in poverty reduction in developing countries

That is how poverty will become history in developing countries. We can see that history in the making. The bare facts are very clear [See statistical table below.] In China, the economy grew at 10 per cent per year per year for 20 years from 1980 to 2000 and the proportion of people under poverty fell from 32 per cent of the total population in 1990 to 16 per cent in 2000. In India, the economy grew by 6-7 per cent per year over the same period and the proportion of people in poverty fell substantially. The total number of people saved from poverty in these two countries between 1981 and 2000 was more than the entire population in sub-Saharan Africa in 2001. Consequently, the proportion of the people in the world in poverty fell from 32 per cent in 1990 to 16 per cent in 2000. The divergent outcomes in India and China on the one side and Africa on the other resulted in a huge shift of the incidence of poverty from Asia to Africa. Of the total number of poor people in the world, in 1990 29 per cent lived in China and 19 per cent in Africa south of Sahara. In 2000, the corresponding percentages were 19 per cent and 29 per cent. Never before in the history of the world has such large numbers of people escaped poverty in so short a while because never before in the world has there been such fast economic growth among huge populations as poor as in China and India.

This argument was cogently made in the Ninth Five Year Plan [1997-2002] of India. With no change in the distribution of income, if the economy grew at 7 per cent per year 1997-2002, 7.5 per cent per year 2003-2007 and 8 per cent per year 2008 -2012, then the poverty ratio would fall to about 1 per cent in Punjab, Gujarat, Haryana and Kerala and would remain above 5 per cent in Uttar Pradesh, Maharashtra, Madhya Pradesh and Bihar. Halving of the poverty ratio by 2015 depends crucially on the rate of economic growth.

Table 1: Per capita income growth in selected regions, 1980-2015

	1980s	1990s	2001-05	2006-2015
East Asia and the Pacific	5.6	6.4	5.4	5.4
South Asia	3.6	3.3	3.4	4.1
Latin America and the Caribbean	-0.9	1.7	3.8	3.3
Africa, south of Sahara	-1.1	-0.2	1.0	1.6

Reproduced from The World bank, **Global Economic Prospects 2004**, Washington, DC, 2004, p.43.

The sad obverse of this experience is in sub-Saharan Africa and the former socialist countries. In Africa south of the Sahara, per person income fell all the way in the two decades of the 1980s and the 1990s. As the new millennium began and to date, the average African was poorer than he was in 1980. Poverty in Africa can only have increased. Poverty in Latin America and the Caribbean fell somewhat, though not as dramatically as in Asia, because there was no persistent high economic growth in those countries.

In the former socialist countries of Europe, there were dramatic reversals in economic growth with the fall of Communist Party regimes at end 1980s and the first few years of the 1990s. Between 1990 and 1998, GDP fell by about 40 percent, in 1998 the recovery began. Poverty increased massively, aided by unusually high inflation and the collapse of the widespread social safety net available under

Communist Party government. Poverty could only have increased in those circumstances. [The figures are from Andrei Schleifer and Daniel Treisman, 'A normal country: Russia after communism', Journal of Economic Perspectives, Winter 2005.]

Table 2: The number [in millions] of people living on less than \$1 per day

	1990	2000	2015
East Asia and the Pacific	470	261	44
China	361	204	41
Europe and Central Asia	6	20	3
Latin America and the Caribbean	48	56	46
Middle East and North Africa	5	8	4
South Asia	466	432	268
Africa, south of Sahara	241	323	366
Total	1,237	1,100	734
Excluding China	877	896	692

Reproduced from World Bank, Global Economic Prospects 2005, page 46.

The Millennium Goal of reducing poverty in the world by half by 2015 is well attainable, if only the African economies can grow fast. On present projections, Africa will add substantially to the number of people in poverty during the 25 years ending in 2015 and so contribute to the failure in attaining the Millennium Goal. The heaviest contribution to the reduction of poverty comes from China, when they reduce the number in poverty from 361 million in 1990 to 41 million in 2015. In south Asia, India will also contribute substantially, on present trends. In Central Asia, the reduction in poverty is quite dramatic. Under all these changes lie varying rates of economic growth, dizzily high in China and painfully low in Africa, supported low rates of growth in population and high rates of growth of population in Africa. Finally, there seems to be a valid demonstration of the importance of rapid economic growth to poverty reduction, which had been laughed at by smart economists as trickle 'down economics'. When economies grow persistently rapidly for three or four decades, poverty becomes history; when economies grow slowly, poverty becomes your future.

Compatibility of Millennium Goals

Does a question arise on the attainability of other Millennium Development Goals whilst attaining that of reducing poverty? Yes, it appears so. Long held wisdom among economists has been that raising literacy and reducing infant and child mortality are essential conditions for economic growth and poverty reduction. They have gone further and maintained that those changes actively contributed to rapid economic growth. The human capital approach has gained momentum from the general appeal of the ideas of a healthy and literate population as desirable in itself While that last contention remains perfectly

valid, there is good reason to doubt the usefulness of expenditure on health and education at the expense of rapid economic growth in a programme of poverty reduction.

The evidence comes from mainly India. Among the large States in the Union, the faster growing economies have been those of Rajasthan, Madhya Pradesh, Tamil Nadu, Gujarat and Maharashtra, none of them remarkable for their high levels of literacy or low infant mortality. Star performers in the latter respects are Kerala and West Bengal and they have been laggards. [The figures are from Montek S.Ahluwalia, Economic Performance of States in Post-reforms Period, Economic and Political Weekly, May 6, 2000.] The worst laggards were Bihar, Uttar Pradesh, and Orissa, none of them remarkable for high literacy or low infant mortality.

There are two other bits of data which support my contention. Sri Lanka and the Philippines have been deservedly well known for high achievement in literacy and infant mortality. Many economists have held out prospects of imminent rapid growth in Sri Lanka from 1960, because in education and health considerations it resembled more the developed economies than developing economies. It is altogether too well known that Sri Lanka has performed poorly in economic growth. The civil war against terrorism is no explanation against rapid growth, because economic growth even more sluggish in the years 1960 to 1980 than in the last 25 years of civil strife. Much the same is true of the Philippines. Both countries have escaped more degrading poverty by exporting unskilled labour to the rest of the world. Wages received in these menial occupations are about 50 per cent higher than in the domestic economies. Consequently the draw out of labour [in Sri Lanka about 20 percent of the labour force] has created tighter conditions in the domestic market driving up domestic wages. Although there are no data to support the argument, I suspect that labour has been exported on a substantial scale from Kerala and West Bengal to other States in the Union.

These higher wages have raised incomes of those that can find employment in the domestic economy but made the task of expanding employment even more difficult. Since wages are higher than they would otherwise have been, low productivity employment has become untenable. At existing levels of productivity, workers cannot earn comparable incomes. Peasant agriculture has been abandoned on a considerable scale. It is far more paying for a young man to go to West Asia for employment than work the fields. Wages in making garments, low as they are, are too high to compete with cheaper labour in other countries. There is a danger that low wages in the tea producing industry will make labour scarce in that sector of the economy.

The conclusion is that economic growth at the levels we are interested in most developing countries in Asia and the Pacific has little to do with improvements in literacy and health. This goes against accepted wisdom but is a valid conclusion from the examination of the data. They may desirable ends in themselves and therefore and worthy of pursuit in the Millennium Development Goals. However, they do not seem to buttress the fight against poverty..