



Poverty and inequality: shooting at the right target

Alan Freeman

Afreeman@iwgvt.org

Inequality under globalisation

Population of the rich countries

Income of the rich countries

Inequality Index

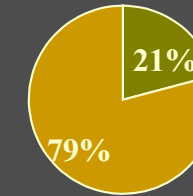
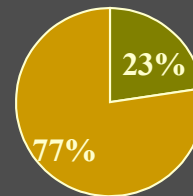
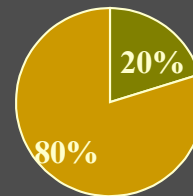
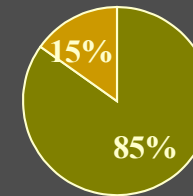
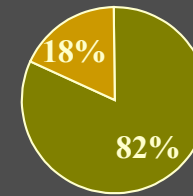
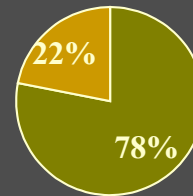
Without China

With China

1962

1982

2002



14

16

21

13

13

20

Index: ratio of income per head in the rich and poor countries

What happened under globalisation?

- In 1982, the income of the advanced countries was 13 times larger, in proportion to their population, than the rest of the world.
- By 2002 this ratio had hence risen to 20.
- The average rate of growth in real world income per capita fell from 5% in the 1960s to 2.5% in the 1990s

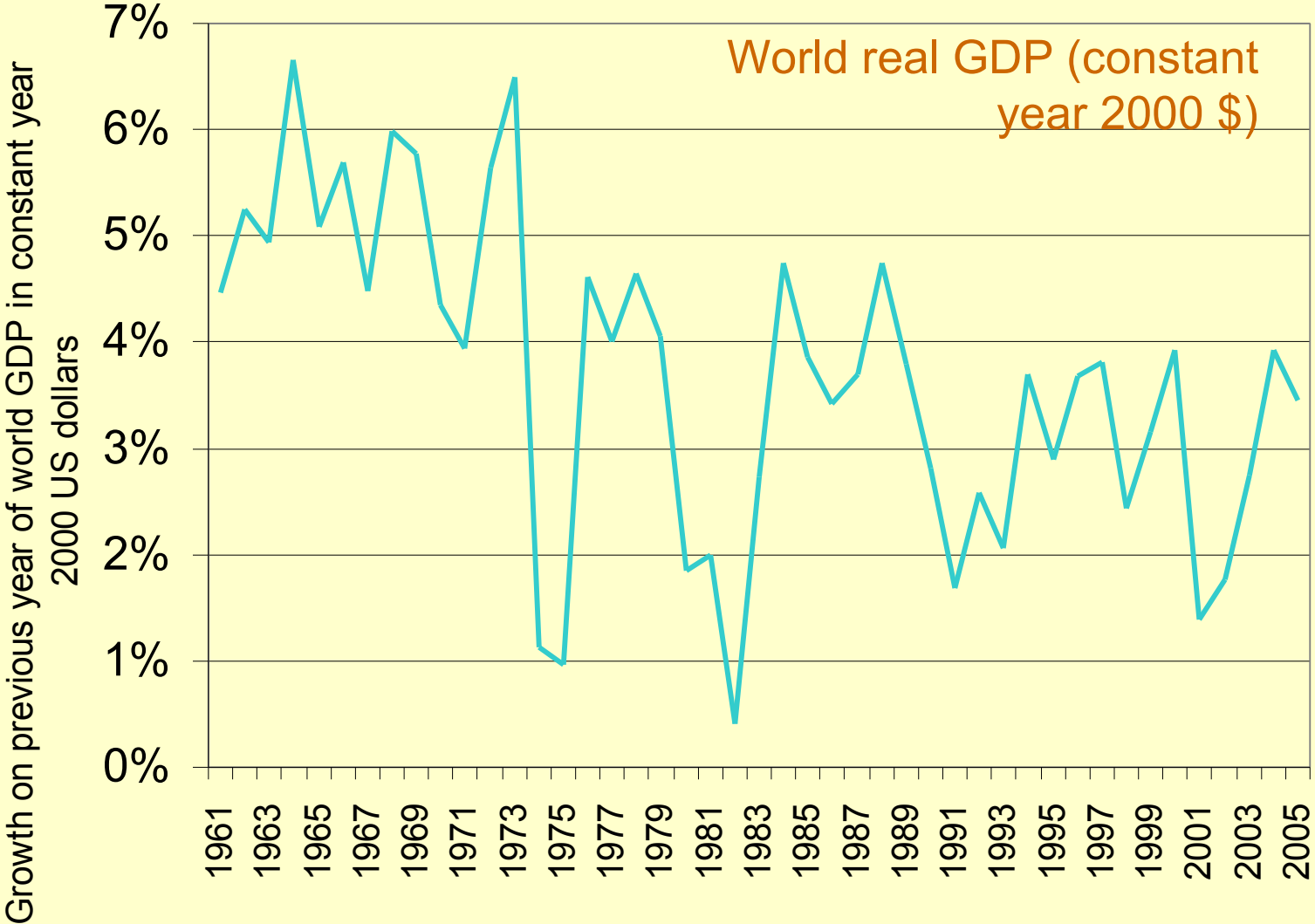
The limits of internal redistribution

- Let us suppose a redistributionist God
- Who will raise the income of as many people as possible in the poor countries to the average income of the rich countries
- But will take no income at all away from the rich countries
- How many people could this God make richer?
- Total income of South in 2002 = \$6,762 bn (avge \$5/day)
- Average income of North = \$27,122
- Number of people which \$6,762 bn could sustain at \$27,122 =
 $\$6,762,000,000,000 / \$27,122 = 249,000,000$
- = 5 per cent of the population of the South
- In this extreme case, everyone else would get nothing at all

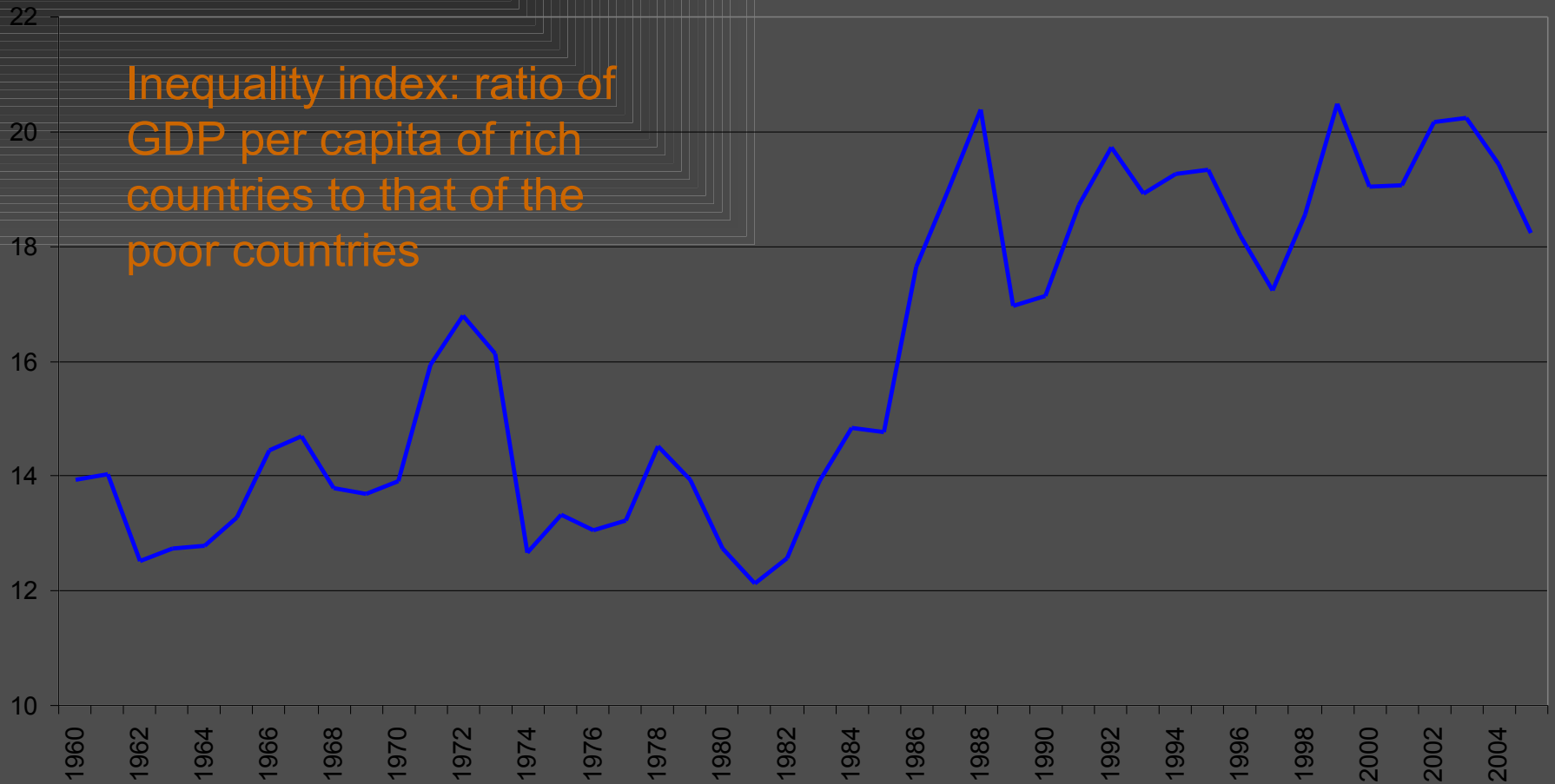
The basic problem

- There are only two possible ways to raise the living standards of the general population of the world
 - Redistribute income away from the North, to the South
 - Raise the general growth rate of the world
- Of course, some combination would work, eg
 - Raise the general growth rate of the South so that it is higher than that of the North
 - But what happened under globalisation (1982-2002) was the opposite
- Global stagnation + global divergence

Real income has not risen



Inequality has nearly doubled



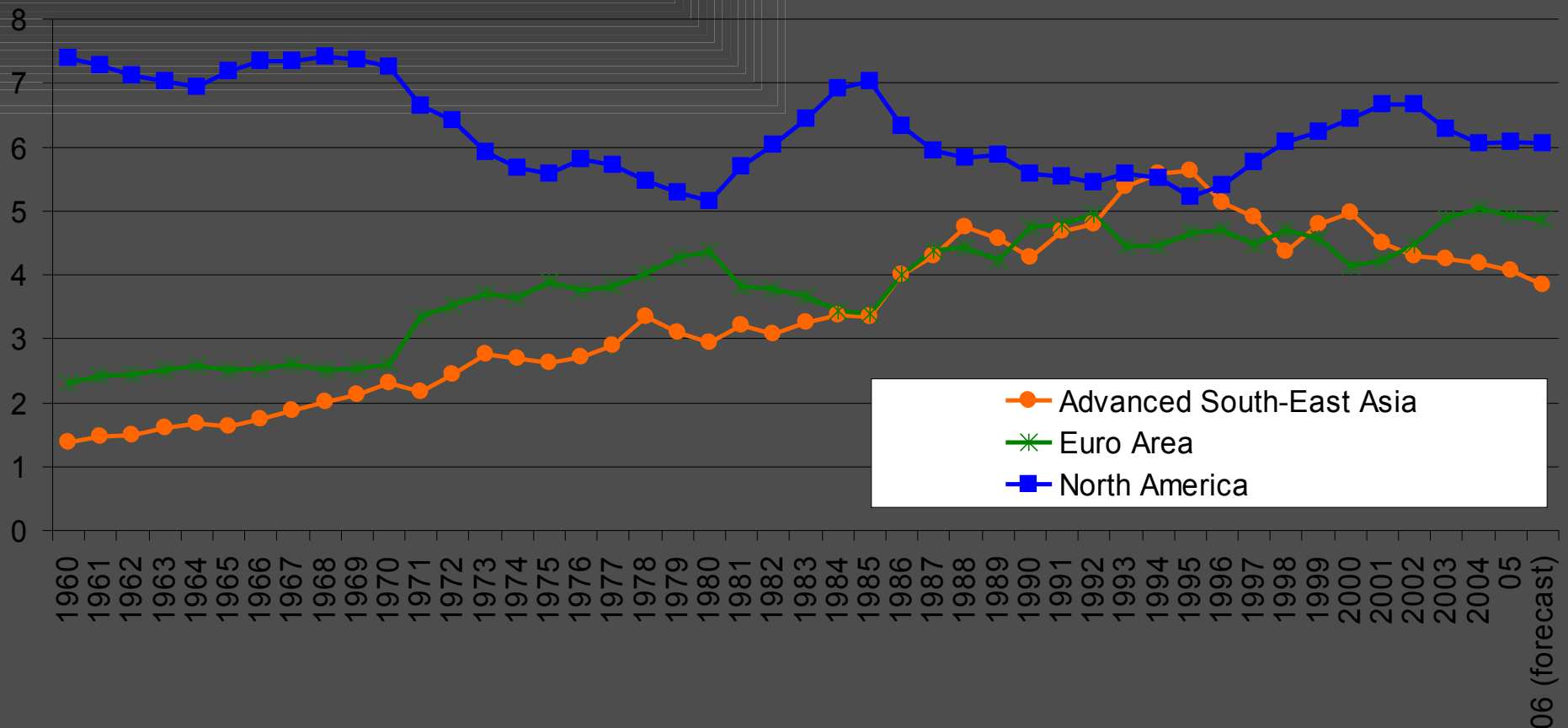
And growth is diverging

	1970-80	1980-90	1990-2000
North America	24.6	24.8	20.9
SE Asia	128.9	68.1	19.9
Euro Area	122.0	25.4	-8.4
Rest	35.4	-19.8	-14.5

Growth of GDP per capita

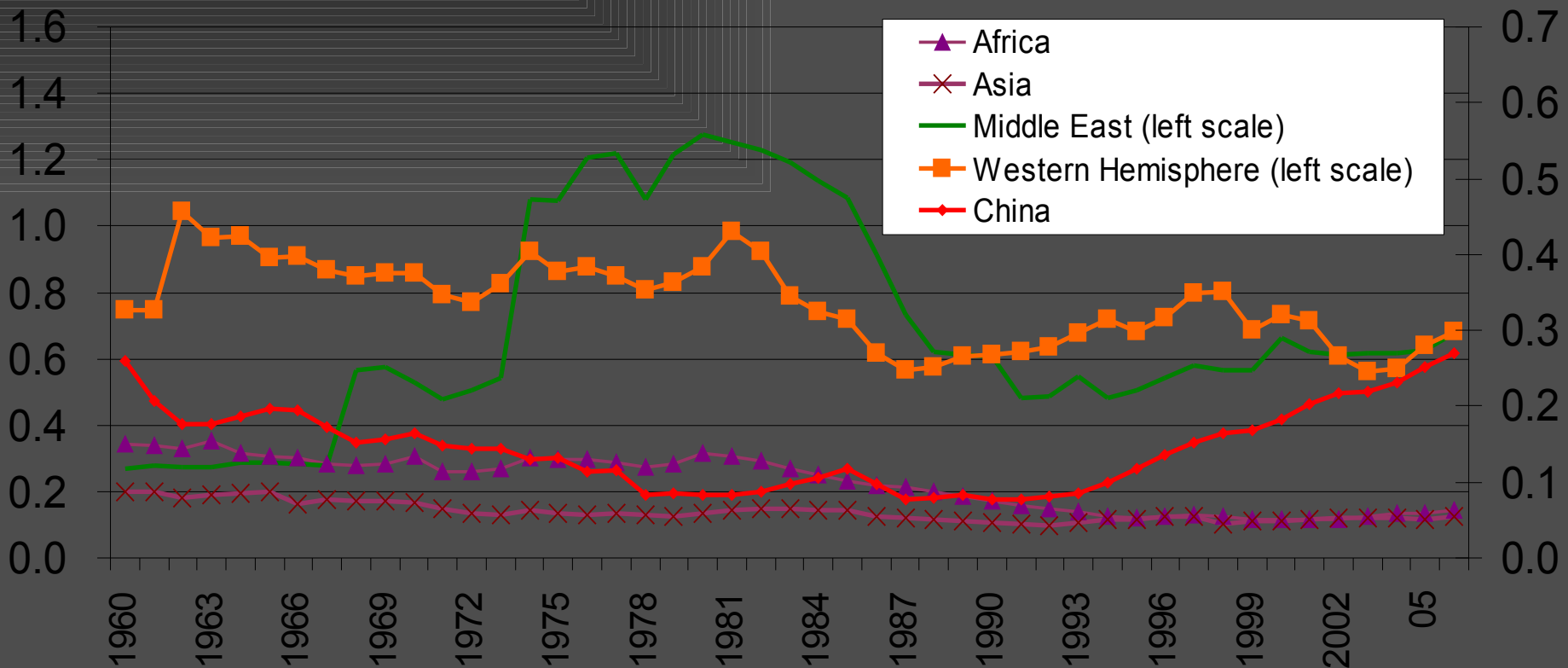
The US 'performs' only relatively

GDP per head of the advanced countries relative to the world



Whilst entire continents sink

GDP per head relative to world GDP per head



Data after 1980: World Economic Outlook

Data before 1980: World Bank World Development Indicators

What does 'poverty' mean?

- Poverty targets such as \$2 or \$1 a day are 'self-fulfilling' as long as there is at least some growth, but don't inform us about
 - Escape from the poverty trap which requires above-average growth, that is a reduction in inequality
 - The crisis of governance
- Human development is minimal and, under 'globalisation', went into reverse

Problems unsolved by PPP-based poverty targeting

- The social problem – a larger and larger number of people are completely excluded from society
- The sustainability problem – larger and larger parts of the planet are excluded from economic growth
- The political problem – ‘global’ elites cannot govern.
- They are alienated from the population
- They are shackled to policies which defend their private interest at the expense of development

Measures of poverty based on need

■ CEPAL

- 'Poverty' = unable to purchase a basic basket of goods
- 'Indigence' = unable to eat every day

Percentage of poor people

NACIONAL

América Latina	1980	2000	2002	2003
Pobreza	40.5	42.5	44	44.3
Indigencia	18.6	18.1	19.4	19.2

TOTAL ÁREA URBANA

América Latina	1980	2000	2002	2003
Pobreza	29.8	35.9	38.4	38.9
Indigencia	10.6	11.7	13.5	13.7

Nacional

Venezuela (República Bolivariana de)

	1981	1994	1999 ...
Pobreza	19.5	47.1	53 ...
Indigencia	5.5	17.1	...

TOTAL AREA URBANA

	1981	1994	1999
Pobreza	25	48.7	49.4 ...
Indigencia	8.6	19.2	21.7 ...

Global distance - the number of people in Latin America living under:

- \$1 per day (UN target 1): 9,470,000,000
- \$3 per day: 37,620,000
- £5 per hour (UK minimum wage): 90,000,000
 - Venezuela 1981: 90% average \$241
 - Venezuela 2001: 97% average \$147
- <http://iresearch.worldbank.org/PovcalNet/jsp/index.j>

The minimum wage in Latin America

País	1980	1990	2000
Argentina	131.7	28.3	100
Bolivia	...	40.6	100
Brasil	104.7	75.6	100
Chile	66	57.7	100
Colombia	93.5	100.4	100
Costa Rica	75.3	91.1	100
Ecuador	247.9	86	100
El Salvador	291.9	101.6	100
Guatemala	396.5	191.1	100
Haití	306.6	225.1	100
Honduras	126.3	107.4	100
México	311.8	144.5	100
Nicaragua	100
Panamá	83.1	82.4	100
Paraguay	82.7	108.2	100
Perú	313.5	73.3	100
República Dominicana	98.6	74.9	100
Uruguay	241.3	166.4	100
Venezuela (República Bolivariana de)	216.2	103.4	100