Poverty and globalization

What are we talking about when we talk about poverty?

According to the Social Summit Programme of Action, "Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterized by a lack of participation in decision-making and in civil, social and cultural life. It occurs in all countries: as mass poverty in many developing countries, pockets of poverty amid wealth in developed countries, loss of livelihoods as a result of economic recession, sudden poverty as a result of disaster or conflict, the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, social institutions and safety nets." It further emphasizes that "Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services."[6]

The Millennium Declaration uses the term "extreme poverty" in probably the same sense as the Social Summit, since both declarations quote the figure of "more than a billion" people in absolute or extreme poverty.

Yet the goals set by the Millennium Declaration combine references to needs (food, water) with means (income) when promising to halve, by the year 2015, "the proportion of people whose income is less than one dollar a day" and "the proportion of people who suffer from hunger" and, by the same date, "the proportion of people without sustainable access to safe drinking water".

By adopting the indicator popularized by the World Bank of USD 1 per day to define and measure poverty, the Millennium Declaration takes some distance from the views of the Social Summit and that of Nobel Prize-winning economist Amartya Sen: "poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes."[7]

Social Watch has demonstrated that an index of capabilities which does not include income can reflect country situations in a way that is consistent with the Human Development Index used by the UNDP and has the advantage of allowing for provincial and municipal monitoring. Yet indexes reflect averages and do not allow the poor to be counted.

Counting the poor

The figure of 1.3 billion poor people published by the World Bank gained instant success and has been quoted *ad nauseam* in any publication or speech related to poverty. Yet the World Bank has been accused of using a methodology that underestimates the number of the poor,[8] basically because it is based on "purchasing power parity" of local currencies, which adjust according to national average prices, and not according to the prices actually paid by the people living in poverty.

The USD 1 per day indicator is also inappropriate for vast regions of the world. In Latin America the Economic Commission for Latin America and the Caribbean (ECLAC) uses USD 2 per day as the line for extreme poverty. In the United States the threshold is around USD 12 per day.

While "extreme" or "absolute" poverty attempt to define a biological survival minimum, the concept of poverty which people actually use and which influences attitudes and decisions is socially defined. Thus, in the United Kingdom, the Breadline Britain measure defines a household as poor if the majority of people in Britain, at the time of calculation, would think that household to be poor. According to that measure, poverty grew in the United Kingdom from 21% to 24% between 1991 and 2001. Even when overall living standards rise, poverty can also rise if society becomes more unequal.

According to a preliminary analysis by Social Watch researchers, using national definitions of poverty instead of the international "extreme poverty" line would result in an increase of at least half a billion people to the number of poor, counting only middle and upper income countries. There were 35.8 million people officially considered as living in poverty in the United States in 2003 (12.5% of the population, 1.3 million more than in 2002). Around 70 million people are counted as poor in the European Union, of which only 5 million fall below the international poverty line. There are 200 million more people living in poverty in Latin America by national official definitions than those counted internationally. In lower income countries the World Bank definitions have frequently become the national official definitions, mainly because of the huge dependency of those countries on the Bank's soft loans and grants, which in turn easily translates into dependency on the Bank's ideology.

To make matters worse, most poverty indicators including those not based solely on income but on the satisfaction of basic needs, are based on household surveys that consider the family as a unit and assume that all members of a household share equally the income and resources available, independent of their age and gender. This results in underestimating the number of women living in poverty, since many of them are not able to satisfy their basic needs even when living in households **above** the poverty lines.[9]

The world is richer, the poor are poorer

Do we really need a single international income definition of poverty? In order to mobilize public opinion and strengthen the political will necessary to implement the commitments, indications of progress are no doubt required. But the speed of poverty reduction can be assessed and compared without having to resort to a common universal poverty line. What really matters is that each and every country reduces the proportion and number of its own citizens living in poverty. Such progress would be consistent with the mandate of the International Covenant on Economic, Social and Cultural Rights, which does not condemn a State because of the poverty of its citizens but clearly requires that "all appropriate means" (including international cooperation) be applied "to the maximum of its available resources, with a view to **achieving progressively** the full realization" of those rights.[10]

In fact the main use of the USD 1 per day indicator is an ideological and political one. This indicator has led World Bank researchers to claim that "globalization is working", since it seems to indicate that the proportion of people living in poverty in the world as a whole is declining at a rate that will make MDG 1 achievable.

When we look more closely at the numbers, we find that even according to that indicator, extreme poverty is not declining and is even increasing in Africa, Latin America, the Middle East, Eastern Europe and most of Asia, with progress concentrated in Vietnam, India and China. India and China do register high economic growth in the last decade, but long term trends of poverty in China are difficult to establish due to the lack of reliable historical statistical series, while in India "there is good evidence that the official estimates of poverty reduction are too optimistic, particularly for rural India."[11]

6 World Summit for Social Development, Programme of Action, Chapter II "Eradication of Poverty", para. 19. Copenhagen, March 1995.

7 Sen, Amartya. *Development as Freedom*. New York: Alfred A. Knopf, 1999.

8 Reddy, Sanjay G. and Thomas W. Pogge. *How* Not *to Count the Poor*, (Version 4.5), mimeo. New York: Barnard College, University of Columbia, 2003, www.socialanalysis.org

9 Batthyány, Karina, Mariana Cabrera and Daniel Macadar. "The gender approach in poverty analysis: conceptual issues". Social Sciences Research Team, Social Watch Research Advance, 2004.

10 United Nations, International Covenant on Economic, Social and Cultural Rights, Art. 2, para. 1.

11 Kozel, Valerie and Angus Deaton. *Data and dogma: the great Indian poverty debate*. World Bank, PovertyNet Library, September 2004.

And the "globalization is working" claim collapses when equity issues are taken into account. According to Professor James K. Galbraith, director of the "Inequality Project" of the University of Texas, "the 'global element' in within-country inequality was stable from 1963 until around 1971, declined through 1979, and then rose sharply and steadily for the following twenty years. This pattern is very similar to that found by Milanovic for inequality between countries. We believe it constitutes strong evidence that global macroeconomic forces, and in particular the rise in interest rates, debt crises, and the pressure for deregulation, privatization and liberalization generally since 1980, have all contributed to a pervasive rise in economic inequalities within countries."

"This work - concludes Galbraith - inevitably raises serious questions about the role of global economic governance in the rise of inequality and in the present difficulties of the development process."

Globalization increases poverty: Adam Smith was right!

The same conclusions are reached by the World Commission on the Social Dimension of Globalization: "The global market economy has demonstrated great productive capacity. Wisely managed, it can deliver unprecedented material progress, generate more productive and better jobs for all, and contribute significantly to reducing world poverty. But we also see how far short we still are from realizing this potential. The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits."[12]

The reason why this is so was already clear to Adam Smith, 250 years ago: "It is every-where much easier for a wealthy merchant to obtain the privilege of trading in a town corporate, than for a poor artificer to obtain that of working in it."[13]

"The masters, being fewer in number, can combine much more easily; and the law, besides, authorises, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it."[14]

In the last 15 years, during which time inequalities have been on the rise and social progress has slowed down, the rights of transnational corporations have been expanded by multilateral, regional and bilateral trade and investment agreements, without any parallel increase in their obligations or in the rights of the workers or of the governments of the countries in which they operate. Capital can move much faster than two centuries ago, but workers cannot. They are forced to compete in a race to the bottom while investment-starved governments compete to offer more concessions and tax-exemptions. Unbalanced rules create unbalanced results. This should not be a surprise for neoliberal economists, since that is precisely what Adam Smith observed and predicted!

If this is the diagnosis, either globalization is reversed or some form of global welfare governance is achieved. A globalized economy that **can** ensure a decent living for everybody but **does not** do so seems doomed to be unsure and politically unviable.

The urgent and the necessary

It can be argued that pursuing an ambitious global governance agenda is a long-term project that fails to meet the urgent needs of people that are desperately poor and hungry **today**. The MDGs, while certainly not a summary of all the UN conferences of the 1990s and definitely not a substitute for them, can legitimately claim to be an expression of the most urgent needs. Yet meeting the MDGs is not just another humanitarian task to be met by an increase in aid.

In fact, if international aid was duplicated tomorrow, the present macroeconomic system would not allow it to be spent. The World Bank and regional development banks already have more money available than what countries are allowed to absorb by the rules of the International Monetary Fund and they are receiving more money from poor countries than what they disburse to them!

In 2002-2003, for example, Uganda, which faces a major AIDS crisis, nearly rejected a USD 52 million grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria because it sought to stay within the strict budgetary constraints it had agreed to maintain in order to acquire loans from the International Monetary Fund (IMF).

At the recent International AIDS Conference in Bangkok (July 2004), UN experts called for a massive increase in financing for AIDS programs, urging that USD 20 billion be provided to developing countries by 2007. Yet, a report published in October 2004 by four major humanitarian agencies[15] argues that IMF policies that seek to keep inflation at very low levels do so at the cost of blocking higher public spending on fighting AIDS. Many economists think inflation and public spending could go higher than what the IMF systematically determines, and therefore IMF policies are unreasonably undermining the global fight against AIDS.

The report also argues that IMF policies make it more difficult for countries to retain critically important health care workers, as a result of the IMF's caps on the amount of money countries can spend for public health sector employees.

The low inflation targets set by the IMF lead directly to limits on the national budgets of poor countries, which lead to ceilings on national health budgets. "Most poor countries would like to significantly increase spending on fighting AIDS," says Joanne Carter, Legislative Director of RESULTS Educational Fund, a US-based citizens lobby group that focuses on combating tuberculosis and other "diseases of poverty" in developing countries. "But they have given up trying to fight against the IMF because they know that they must comply with IMF loans just to keep their access to the current levels of foreign aid they are already receiving. If you go against the IMF, you risk getting cut-off from all other sources of foreign aid."[16]

Taxes in debate

In defending its rules, the IMF has argued that international aid cannot be trusted as a reliable source of income to support current expenditures (as, for example, taxes are) due to its volatility and non-contractual character. Which places the ball back in the court of donor countries and challenges them to redefine flows to developing countries in a way that is predictable, reliable and non-volatile.

This is precisely what more than one hundred countries demanded on 20 September 2004 in New York in their request to consider new mechanisms to fund poverty eradication, a proposal that has been blocked by a single nation's veto, applied to the discussion of anything that might even resemble an international tax.

Faced with tough externally-imposed restrictions in their budgets for development and social urgencies, Presidents Lula da Silva of Brazil and Ernesto Kirchner of Argentina signed on 16 March 2004 the "Copacabana Act", formally known as the "Declaration for Cooperation Towards Economic Growth with Equity," where they denounce a "contradiction in the present international financial system between sustainable development and its financing" for lack of "adequate crisis solving mechanisms" and make a link between finances and trade, which

12 World Commission on the Social Dimension of Globalization, *A Fair Globalization: Creating Opportunities for All*, New York, February 2004. www.ilo.org/public/english/fairglobalization/report/index.htm

13 Smith, Adam, *The Wealth of Nations,* I.10.100.

14 *Ibid*, I.8.12.

15 ActionAid International USA, Global AIDS Alliance, Student Global AIDS Campaign, and RESULTS Educational Fund, "Blocking Progress: How the Fight Against HIV/AIDS is Being Undermined by the World Bank and International Monetary Fund", The full policy briefing is available at www.actionaidusa.org/blockingprogress.pdf

16 *Ibid.*

is seen as "crucial" for growth. To change the system, they agreed "to negotiate with multilateral credit institutions in a way that does not jeopardize growth and ensures debt sustainability, allowing for infrastructure investment."

When a private corporation invests in infrastructure this is accounted for as asset creation and only a small percentage of the total investment affects the yearly balance as depreciation. But national accounts only register income and losses: all of the money spent is registered as a loss. And the IMF imposes a ceiling on government expenditure in order to generate a "primary surplus" to ensure debt sustainability. What Kirchner and Lula proposed, and was endorsed later by all South American finance ministers, was that in much the same way as private corporations do, infrastructure investment should be depreciated over several years and not as a loss at the moment of expenditure.

The immediate effect of the proposal, currently being studied by the IMF, is of course to allow for greater government expenditure. But the implications of introducing the concept of asset creation in national accounts are far-reaching. It could lead to the end of natural resource depletion (because there would be a corresponding loss in the assets accounts). And, in the original Argentinean proposal, the formation of "human capital" should also be exempted from the IMF imposed expenditure ceilings. Health and education expenditures could be regarded as "investments" in the same way as spending on infrastructure, and many economists would argue this is an investment that pays more and faster than big conventional development projects.

Promises, promises

These ideas, together with the demand for increased developing country participation in the decision-making of the Bretton Woods Institutions, were already present in the discussions around the Monterrey Consensus that resulted from the Conference on Financing for Development in 2002.

Yet these promises are waiting to be fulfilled, just like those made in Doha to start a Development Round to make trade rules friendlier to developing countries. None of these promises have materialized yet. Instead, developing countries are experiencing additional demands in their services sectors (with direct implications on the provision of basic services for the poor) as a "price" for concession in the agriculture or textile areas.

In fact, each of the yearly assessments of promises that Social Watch has studied since 1996 has shown that by and large developing countries have been closer to meeting their commitments than developed countries. And different independent evaluations show that among them, the members of the G7 are those lagging furthest behind.

If anything, what the adoption of commitments, goals and time-bound targets by the international community has achieved is to set benchmarks against which governments (and the politicians that form them) can be judged objectively. It is ultimately the judgment of public opinion which makes changes possible. But the decision-making that will make the difference is scattered in a multiplicity of fora and institutions attended by different ministers and officials with results that are frequently contradictory.

For example, on 4 October 2004 the UN Committee on the Rights of the Child strongly recommended that Southern African countries ensure that "regional and other free trade agreements do not have a negative impact on the implementation of children's rights". The trade agreement currently being negotiated between the regional bloc and the United States could "affect the possibility of providing children and other victims of HIV/AIDS with effective medicines for free or at the lowest price possible." Such a resolution has global implications, since the provisions in the draft text are common to many bilateral trade agreements. Similar discrepancies between the right to life and intellectual property rights of pharmaceutical corporations led to a declaration at Doha and a further extension of that agreement prior to the Cancun Ministerial which had the effect of revising the application of the TRIPS agreement.

There is no global supreme court to decide what should prevail when human rights and trade regulations conflict. Advocates of trade and investment accords and of the World Trade Organization (WTO) attempt to press their priority over other treaties and norms at key international forums: the implementation of the Johannesburg Summit on Sustainable Development, the treaty against tobacco or the ongoing negotiations around the protection of cultural diversity. At present coherence can only be achieved at the level of heads of State and government. Which is what makes the Second Millennium Summit so important. ■