COMBATING GLOBAL POVERTY

background reading | rich and poor unit

EARTH matters

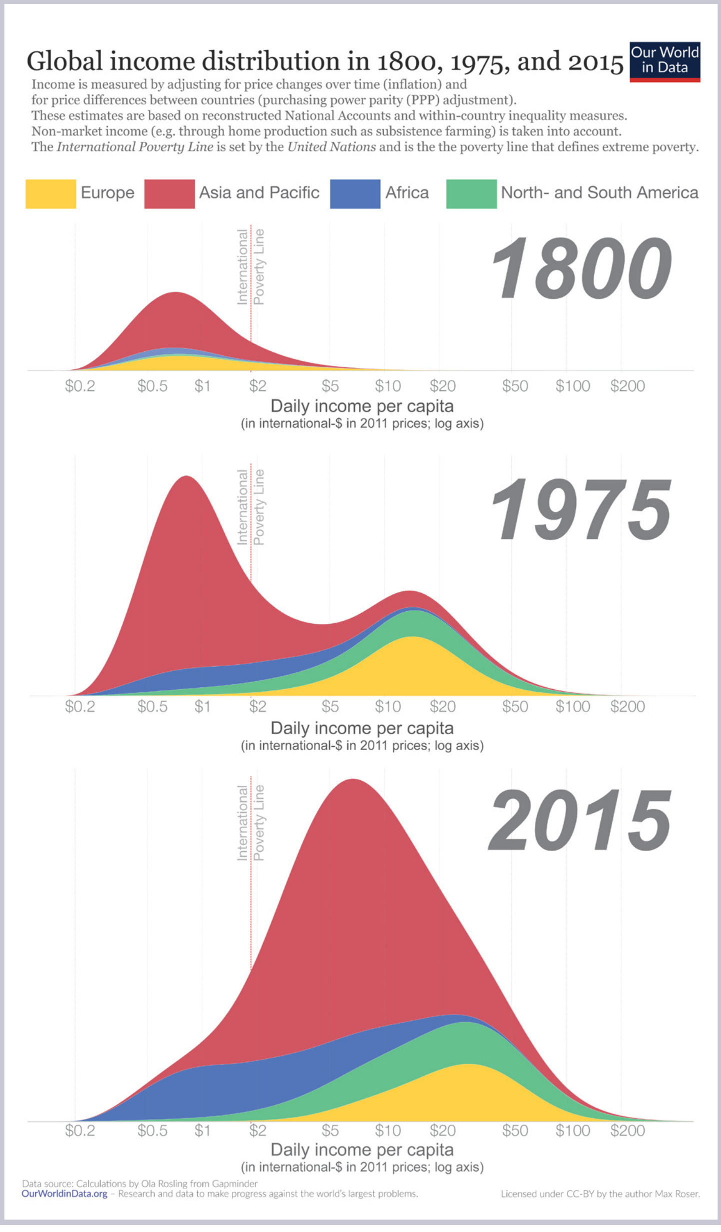
Studies For Our Global Future

It has been said that "geography is destiny," meaning a person's life is determined in a large way by where they are from or reside. We live in an economically divided world. One-sixth of the world's population enjoys relative wealth in **more developed countries**, while five-sixths reside in **less developed countries**. Many of these less developed countries are rapidly industrializing and gaining economic prosperity in this era of globalization. Yet, over 10 percent of the world's people still live in **extreme poverty**, and despite the rise of the global middle class, inequality within countries (the gap between rich and poor) persists.

Poverty is far more than an economic condition. Poverty's effects extend into all aspects of a person's life, such as susceptibility to disease, limited access to education and information, subordination to higher social and economic classes, and complete insecurity in the face of changing circumstances, such as food shortages and natural disasters. Significant progress has been made in recent decades to reduce global poverty, but challenges still remain.

History of rich and poor

It may seem that there have always been great disparities in wealth around the globe, but this economic landscape of "have" and "have not" countries is actually relatively recent in human history. Up until the **Industrial Revolution** about 200 years ago, most economies were agricultural and living standards were similar across countries. A handful of people had great wealth as part of nobility in some countries, but the vast majority of people lived off of the land. There was no concept of economic growth or upward mobility. People born before 1800 could expect to live at the same standard as their parents and grandparents. Most people had little or no access to formal education, and job skills were gained largely by apprenticeships. Large families were the norm, as children were needed laborers in the fields.



When the Industrial Revolution took hold of Great Britain in the late 1700s, followed by Western Europe and the United States in the 1800s, the nature of labor and economics began to change. Mechanization meant that more people were needed to work in burgeoning factories rather than in the fields. Consumer goods were being produced to sell around the world. As a result, industrializing countries experienced sustained increases in per capita incomes and living standards. Accompanying this transition from an **agrarian** to an industrial economy was a **demographic transition**. Industrialization meant more people were leaving farms to move to growing cities where smaller families were more practical. Parents could invest more resources, such as an education, in fewer children to enable them to move ahead socially and economically.

Since the 1980s, SAP policies have reduced tariffs on imported rice to Haiti, making it difficult for local rice farmers to compete.

From the height of the Industrial Revolution through the 1960s, there was a growing chasm between the growth and development of industrialized countries and countries that remained largely agrarian. This led to an increase in income inequality across the globe. The reasons behind this widening inequality is the subject of continual dialogue and research for many economists, sociologists, and international development groups. Many point to the impacts and ongoing legacy of **colonialism**, which created unequal power balances within countries and shaped the political and economic institutions within and between countries, affecting everything from land distribution to trade policies.[1] As recently as 1945 when the United Nations was founded, nearly one-third of the world's population lived in territories under colonial rule. Though the world's largest colonial empires collapsed in a wave of independence in the 1960s, the aftereffects of colonialism remain prevalent, including depleted or exploited resources and unstable governments in many of the now independent countries.

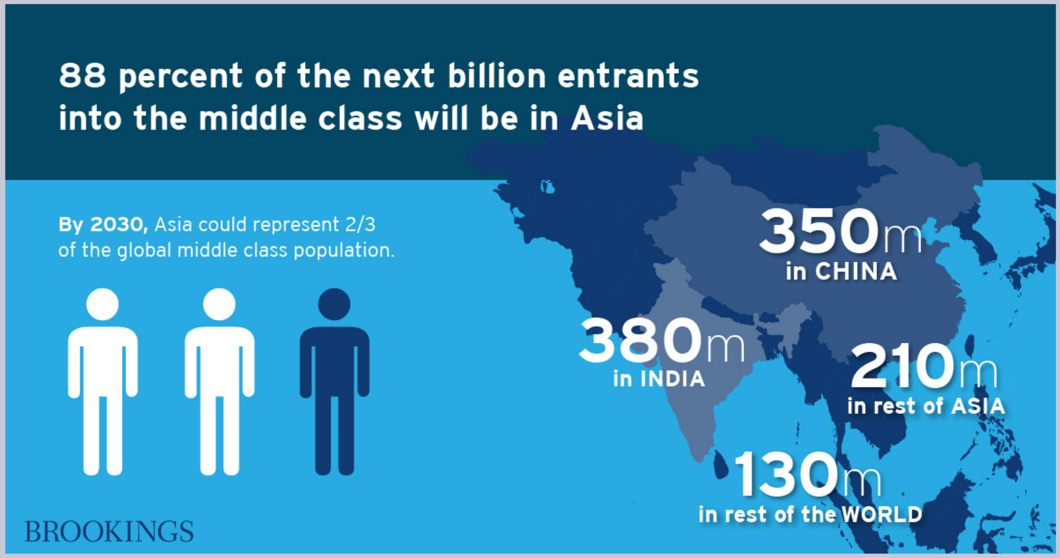
Some scholars maintain that loan policies instituted by the International Monetary Fund starting in the 1980s further contributed to global wealth inequality among countries. Loans were conditional on low-income countries establishing **Structural Adjustment Programs (SAPs)** to promote free trade and reduce government spending. These SAPs had the unintended effect of disadvantaging local industries and cutting funds for needed social services.

Over the last 25 years, while the overall income gap between nations has decreased, driven mainly by the growth of Asian economies, there is still great inequality between countries. Today, the average income of someone in sub-Saharan Africa is 16 times less than the average income of a person in North America.[2]

Rise of the global middle class

In recent decades, industrialization has taken hold in more countries, especially in Asia and Latin America. This rise in global economic prosperity has coincided with an increase in **globalization**, a process driven by international trade and investment, an integrated global economy, and aided by the spread of information technology. Globalization, especially over the past 30 years, has boosted the economies of a number of **developing countries** and has led to a rising number of middle-income citizens around the world.

For the first time in history, the majority of the world (just over 50 percent) is middle class or richer. While there is no set definition of "middle class" around the globe, it is generally characterized by people who have discretionary income to spend on entertainment, vacations or durable consumer goods like motorbikes and washing machines, while simultaneously being confident that sudden economic setbacks will not push them into extreme poverty. The threshold of wealth required to be considered "middle class" varies significantly depending on a community's overall economy. A middle-class family living in rural Ghana might lose that designation if they moved to Accra, which is one of the most expensive cities in Africa. There are 4 billion people in the global middle class today, and that number is projected to grow to 5.3 billion by 2030.[3]



Source: The Brookings Institution

Most of the world's middle class expansion in the past few decades has been, and will continue to be, in Asia, particularly China and India. Since 1978, when China opened its markets to the world and devised sweeping economic reforms, the country has, on average, been able to double the size of its economy in real terms every eight years.[4] India has also fared well, expanding its economy four-fold since 1993.[5] By 2030, China and India, the world's two most populous countries, will together also be home to around 43 percent of the world's middle class, and the world's largest consumer spending power.[6]

Brookings Institution economist Homi Kharas also sees the potential for a growing middle class to bring about a smaller global population, which, in turn, could reduce the human footprint on the environment. "Higher family incomes and higher rates of girls' secondary education – two variables associated with a larger middle class – could have a dramatic impact in slowing global population," writes Kharas. "That is because middle-class households tend to be urbanized and better educated. And with greater education rates, we see a shift in female employment as more women from middle-class households begin to work outside the home and, over time, have fewer children.[7]

Persistent poverty

Even with the encouraging rise of the global middle class, 1 in 10 people around the globe still lives in extreme poverty, living below the international poverty line of US$1.90 per day. Most of the world's poor live in rural areas and are dependent on agriculture for their main source of income. A large portion (44 percent) are children under age 15 and many (39 percent) have no formal education. More than half of the extreme poor live in sub-Saharan Africa.[8]

Children living in Kibera, Nairobi.

Life among the extreme poor is marked by high fertility, low **life expectancy** and chronic hunger, as well as limited access to healthcare, adequate sanitation, clean water, education and employment. Any effort to reduce poverty must address these other factors as well. For instance, chronic, persistent malnutrition and hunger can harm children's health as well as their mental and physical development. Malnutrition can manifest in many ways, such as undernutrition, inadequacies in vitamins and minerals, and obesity. Globally, around 45 percent of deaths in children under age 5 are attributed to undernutrition.[9]

Barriers to education are also an issue, as many children leave or don't enroll in school in order to help their family earn income, or help with housework while looking after younger siblings. Violence, conflict, and gender discrimination are other reasons for youth not enrolling in or finishing primary or secondary school. More than half of the world's 59 million out-of-primary-school children live in sub-Saharan Africa. In all regions of the world, more youth are out-of-school at the upper-secondary (high school) levels, with the largest portion (68 million) in South East Asia.[10] With little formal education, these young people lack access to the information and ideas that could help them escape poverty.

Women and poverty

Some groups are especially vulnerable to poverty and the risks it brings. In some communities around the world, women are disadvantaged by local laws and traditions that often prevent them from owning land and property, or getting access to credit. Globally, 42 percent of working-age women don't work because they have caretaking duties to children or elderly, compared to just 6 percent of men. Every day, women and girls contribute 12.5 billion hours of unpaid work, including caretaking, walking long distances to fetch water, cooking, and cleaning. All this female unpaid work contributes over $10 trillion a year to the global economy. Despite this, these unpaid duties take time away from women and girls which they could use to pursue education or paid employment.[11]

The COVID-19 pandemic has also undermined the socio-economic well-being of women around the world. Because women are more likely to hold low-wage or unstable jobs, they have faced more job losses than men due to the economic fallout due to the pandemic. As schools closed, most students were at home and unpaid childcare responsibilities fell mostly on women due to social norms or the existing structure of the workforce. This hindered women's ability to carry out their own jobs, especially if they could not work remotely.

Many people around the world are trapped in a poverty cycle. Barriers to education close off better job opportunities for the next generation. Hurdles to accessible and affordable quality health care make it more difficult for people to stay healthy enough to work, attend school, and create better lives for themselves and their families. Population growth is highest in the poorest, **least developed countries** for many reasons, including lack of access to contraceptives, child marriage, lack of educational opportunities, and a high infant mortality rate, which prompts families to have more children. As a country's population grows rapidly, it is difficult for the government to provide for the growing needs of more people.

The good news is that the rate of extreme poverty has been falling around the globe. While 10 percent of the world's population lives in extreme poverty today, it's down from 36 percent in 1990, a period in which the global population grew by 1.9 billion people.[12] Through the United Nations, world leaders have committed to trying to end extreme poverty by 2030. They plan to invest in individuals and programs that reduce inequality, promote inclusive economic development and advance health, education, and human rights for all. The COVID-19 pandemic, with its wide-reaching social and economic impacts, is projected to slow progress toward this goal.[13]

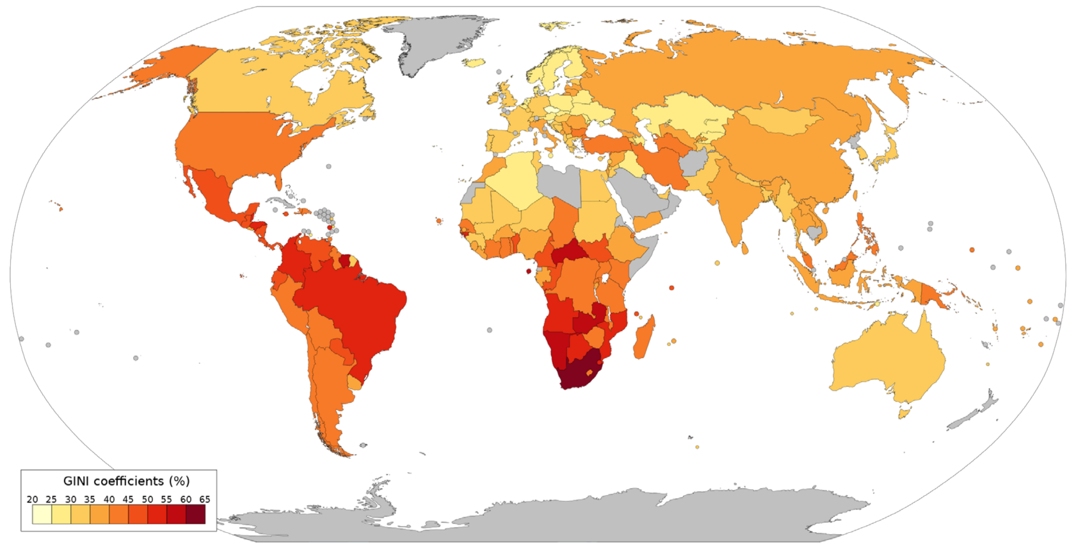
Growing inequality

While global poverty was broadly declining in previous decades, **income inequality** within many countries (both developed and developing) has been on the rise. According to Oxfam International, just 26 individuals in 2018 had the same wealth as the bottom half of the world's population (3.8 billion people!) and today, 71 percent of the world population lives in countries where inequality has grown.[14] While globalization has boosted economic growth for a number of developing countries, increasing the number of people in the middle class and raising standards of living, its benefits have not been inclusive, and in fact, has widened inequality in many places.

This inequality can serve as a powerful obstacle to progress around the world. "Inequality is constraining national economies and destabilizing global collaboration in ways that put humanity's most critical achievements and aspirations at risk," writes Jim Yong Kim, former president of The World Bank. "More equal countries tend to have healthier people and be more economically efficient than highly unequal countries. And countries that invest smartly in reducing inequality today are likely to see more prolonged economic growth than those that don't."[15]

The most commonly used measure of income inequality is the **Gini coefficient**, (sometimes called the Gini Index) which is measured on a scale of 0 to 1. The Gini coefficient calculates the extent to which the distribution of income among individuals within a country deviates from an exactly equal distribution. A Gini coefficient of 0 represents exact equality – that is, every person in the society has the same amount of income. A Gini coefficient of 1 represents total inequality – that one person has all the income and the rest of the society has none. From 2015 to 2019, countries ranged from a low Gini score of 0.24 (Slovakia) to a high of 0.62 (South Africa).[16]

GINI Coefficients by Country (Based on World Bank data through 2018)



The United States has one of the top 10 inequality scores among high-income countries with a Gini score of 0.39.[17] Increases in household income inequality have been largely driven by changes in the distribution of wages and salaries. From 1979 to 2017, wages for the top 1 percent earners in the U.S. grew by 157 percent, while wages for the bottom 90 percent grew by only 22 percent.[18]

As wage gains have gone toward higher-earners, wage stagnation for the majority of U.S. workers also widens inequality. Adjusting for inflation, today's average hourly wage has around the same purchasing power as it did in 1978.[19] The wealth gap in the U.S. extends beyond income to include all financial assets including home ownership and investments. In 2016, the top 1 percent of households owned 40 percent of the country's wealth, the highest share since 1962.[20]

Evidence exists of national policies that can help reduce income inequality and poverty. These include an emphasis on early childhood development, universal health care and universal access to good-quality education.[21] Investments in the health and education of citizens is an investment in **human capital**, a term coined by economist Gary Becker to refer to the abilities and qualities that make people productive.[22] Because poverty disproportionately affects rural communities worldwide, investments in rural infrastructure – roads, electrification, schools and health care facilities – can also go a long way toward raising opportunities and standards of living.

Poverty and the environment

Another reason to invest in human capital and infrastructure projects around the globe is to increase people's resiliency to the escalating impacts of climate change. Impoverished people are more vulnerable to these impacts because they are often forced to live on more marginal land (prone to flooding and mudslides), in inadequate shelters, and depend on subsistence farming that may not withstand periodic droughts. A natural disaster like a major hurricane can take struggling communities years to recover. In the past 20 years, over 4 billion people have been affected by weather-related disasters, including a significant loss of lives.[23] Developing countries are the most affected by climate change impacts and have suffered the greatest losses, including economic costs estimated at 5 percent of GDP.[24] As climate-related events increase in frequency and intensity, the living standards for poor communities are also likely to worsen, widening the inequalities that already exist.

Flooded streets in Ho Chi Minh City, Viet Nam.

In the U.S. (and many parts of the world) unequal enforcement of environmental regulations, discriminatory siting decisions, and unequal political power also contribute to environmental injustices, in which higher concentrations of environmental pollution harm low income, Black, Indigenous and other people of color. The Environmental Justice Movement seeks to address and remedy these issues.[25]

Poverty, itself, can exacerbate environmental problems as well. Most of the rural populations of developing countries rely on agriculture for their livelihoods, but agricultural expansion can often cause ecological stress. Wealthy landowners, cultivating more and more acres for commercial crops, continue to push subsistence farmers onto poor land. Food insecurity often leads these farmers to cut forests to create more farmland or cultivate land on steep slopes. Both practices can lead to soil erosion and increased incidents of floods and droughts. Though large companies do the majority of forest-clearing for agriculture, subsistence farmers' livelihoods are disproportionately impacted by deforestation.

Advancing human development

Human well-being is measured in more than just economic terms. Human development, according to the United Nations, is about "enlarging freedoms so that all human beings can pursue choices that they value."[26] By many measures, human development has progressed in most parts of the globe over the past 30 years. People are living longer, fewer people are living in extreme poverty, fewer people are malnourished and more children are in school. Yet this development has been uneven, and too many of the people around the globe still struggle to meet their most basic needs.

In 2015, world leaders launched the **Sustainable Development Goals (SDGs)**, 17 objectives for advancing the well-being of people and the planet by 2030. SDG 1 is "End poverty in all its forms." SDG 10 is "Reduce inequality within and among countries." The agenda resolves to "build a better future for all people, including the millions who have been denied the chance to lead decent, dignified and rewarding lives and to achieve their full human potential."[27] It is a "collective response to building a fair globalization," according to António Guterres, the UN Secretary-General.[28]

Meeting these goals will require collaboration and commitment from governments, organizations, businesses and citizens, to help reduce poverty levels and help ensure inclusive economic growth as countries move through the demographic transition. Separating environmental degradation from economic growth is another challenge, and "requires the scaling up of existing sustainable practices and more fundamental transitions in the ways in which people produce, consume and dispose of goods and materials throughout society," according to the UN.[29]

Achieving the goals also requires vast financial resources, but in many developing countries, external resources, including development aid, are essential. Foreign aid to alleviate poverty is more than just humanitarian aid because it also contributes to environmental preservation and global security. This assistance, from the U.S. and other developed countries, is spread across many areas including disease prevention, humanitarian aid, economic development projects, military aid and education. Foreign assistance makes up less than 1 percent of the U.S. budget, a far smaller portion than most Americans realize.[30]

Advocating for a "robust development budget," retired Admiral Mike Mullen and General James Jones wrote that "American security is advanced by the development of stable nations that are making progress on social development, economic growth and good governance; by countries that enforce the rule of law and invest in the health and education of their own people. In short, America's interests are served by nations that give their people hope for a more prosperous and safe future."[31]

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