

## **The Realpolitik of Poverty**

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Most hard-headed policy analysts consider poverty a “soft,” low-priority issue—if they think of it at all.

These analysts are wrong. Eliminating absolute poverty worldwide would help meet a number of American interests in the 21<sup>st</sup> century. And if global absolute poverty persists, it will increasingly cost the United States over the next decades. Eliminating absolute poverty, therefore, is not just an *ethical* but an *instrumental* issue for U.S. policymakers.

### **Why Global Poverty is Bad for the United States**

Absolute poverty usually is defined as the number of people living on less than \$1 a day. By that measure, nearly 1.2 billion people were living in absolute poverty in 1998. The global percentage of people in this category dropped from 28 percent in 1987 to 23 percent in 1998. However, because of population growth, the *number* of very poor people remained roughly the same. And if we use an income of less than \$2/day as the measure of poverty, more than 2.8 billion human beings are impoverished—again, roughly the same number as in the 1980s.

What is your life like if you are in absolute poverty? For starters, you lack the basic skills and minimum capacities needed to control your own life, much less take advantage of globalization. You are most likely illiterate. You might very well be malnourished. You are almost certainly suffering from at least one debilitating disease (such as malaria or HIV/AIDS), which saps your energy and diminishes your productivity. You probably lack assets (such as land and capital) that would enable you to invest in your future. And in many countries, you are at the bottom of the social ladder—a victim of discrimination, ignored by social programs that reach other groups.

But why should the United States care? Because the world won't work well—even for the United States with its vast wealth and power—if poverty remains at a high level. Take trade. Trade is an important *strategic* arena because it can play a critical role in expanding the number of prospering, stable, and democratic states. Done right, trade can be an important engine to developing-country domestic growth—which, in turn, will provide reforming countries with resources needed to address poverty and other problems. (For that reason, successive American presidents—both Republican and Democrat—have strongly emphasized promoting open markets and open economies.) Global poverty, however, cripples global trade potential and hence ultimately global security.

Trade is also now an increasingly important contributor to America's economic growth. In the last four decades, exports have tripled their portion of the U.S. gross domestic product (GDP). And developing countries now have emerged as major trading partners for the United States: nearly 42 percent of U.S. exports went to developing countries in 1999. A measurable part of that export-market growth came in Asian countries—growth directly attributable to those countries' heavy investments in health and education, which dramatically reduced absolute poverty and increased worker productivity (WHO, 2001).

U.S. exports are particularly sensitive to rates of growth in developing countries. When growth slows (as it did during the debt crises of the 1980s and during the recent Asian financial crisis), American exporters and their employees feel the impact directly. And in the longer run, absolute poverty is a drag on world trade expansion: it slows growth and limits the size of the global market.

Much the same case can be made for international health—where problems have direct costs to American interests. Since 1973, at least 30 previously unknown diseases such as HIV/AIDS, hepatitis C, and Ebola have emerged, most of them in the developing world. (SARS is only the latest example.) In addition, new drug-resistant strains of tuberculosis and malaria have emerged and are now appearing in the United States. As the National Intelligence Council's report *The Global Infectious Disease Threat and Its Implications for the United States* puts it:

[block quote]"New and reemerging infectious diseases will pose a rising global health threat and will complicate U.S. and global security over the next 20 years. These diseases will endanger U.S. citizens at home and abroad, threaten U.S. armed forces deployed overseas, and exacerbate social and political instability in key countries and regions in which the United States has significant interests (NIC, 2000, page 5).[end block quote]

Many of these diseases—such as malaria and cholera—are first and foremost diseases of poverty. Others have emerged in countries that are too poor to have public-health systems to both treat new diseases and to warn the outside world when they emerge. And in all cases, people living in poverty are too poor to afford treatments even when such treatments are available.

Creating effective public-health institutions in developing countries could both help people deal with major diseases of poverty such as malnutrition and malaria as well as new challenges such as HIV/AIDS. Such health institutions could also provide a global early-warning system for the inevitable new major health threats. Yet by all agreement, global health does not receive anywhere near the policy attention and funding that its importance demands.

The relationship of poverty to conflict is more complex. Poverty by itself does not cause conflicts; it is only one in a long list of factors (including ethnic disparities, social and economic inequalities, resource disputes, demographic pressures, environmental degradation, and urbanization) that work in different combinations in different situations to prepare the ground for conflict.

However, it is the poorest countries (those with stagnant or declining economies and a dependence on exports of raw materials) that seem to be most prone to violent conflict. Conversely, those that are developing rapidly suffer many fewer violent conflicts.<sup>1</sup> And while most of the costs of violent conflict are borne regionally, the costs to US interests (and to the international community) also are considerable. For instance, there is credible evidence that the initial spread of HIV/AIDS in Africa was speeded by the conflict between Tanzania and Uganda, and then by troops sent to keep the peace in West African conflicts. And HIV/AIDS is not the only disease spread by conflict. The World Bank estimates that for every 1000 refugees, there are nearly 1500 new cases of malaria in neighboring countries, simply because people have moved from an area where they have acquired immunity to one where different strains of the disease are prevalent.

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<sup>1</sup>Much of this section is drawn from World Bank (2003).

The direct costs of ending active conflicts are also high. A study prepared for the Carnegie Commission on Preventing Deadly Conflict estimated that the costs of dealing with seven major conflicts in the 1990s was around \$230 billion. The study's authors estimate that a preventative approach stressing earlier intervention would have saved the international community almost \$130 billion (Brown & Rosecrance, 1999).

Moreover, the drug trade, international crime, and terrorism are also associated risks of conflict. According to the World Bank, some 95 percent of global production of opium takes place in countries with civil wars, and the channels of distribution and storage flow through conflict countries. And while terrorists are usually not impoverished, conflict does provide an environment (such as Afghanistan) in which terrorists can operate. Illegal trade in raw material and drugs—notably, diamonds in West Africa and opium in Afghanistan—have sprung up in conflict areas, profiting both terrorist and criminal groups.

Finally, there is an important relationship between poverty and the sustainability of the earth's environment. Both economic growth and affluence and persistent poverty are pushing against the earth's limited carrying capacity. Energy is a central issue. Currently, most of the energy used by poor people is produced in ways that are highly inefficient, generate enormous amounts of pollution, and are generally unhealthy. Most people living in poverty use wood and other plant matter for cooking, and kerosene for lighting. Both species of energy consume more energy than other fuels and produce smoke and particulates that worsen human and environmental health (UNFPA, 2001).

The challenge—which is again in the interests of the United States—lies in finding some way for the rich countries to lessen their consumption of energy without reducing well-being, and for poor countries and poor people to escape poverty without stifling needed economic growth or destroying the environment on which they too depend. For poor people in rural areas, solar power already is cost-effective when compared with extending electric grids, and subsidies and low cost credit could help poor people obtain more efficient stoves.

### **Can It Be Done?**

*Relative* poverty probably never will be eliminated: the current gap between rich and poor countries is just too wide to close in the foreseeable future. But it is possible—and well before 2050—to cut dramatically and even eliminate the number of people living in *absolute* poverty. Achieving such a goal, however, will take more than rhetoric from both developing and developed countries.

In fact, the percentage of people living in absolute poverty has already been reduced, and all social and economic indicators show major improvements since the 1960s. Per capita developing-country GDP nearly tripled between 1960 and the late 1990s; life expectancy has jumped from 46 years to 65 years; birth rates have dropped dramatically in almost every country (from over six births per woman in the 1950s to 3.6 births, and still declining), with the prospect that, by the middle of this century, the world's population could be stabilized at lower levels than previously projected; and world food production has increased dramatically, and many more countries are now capable of feeding themselves. In India—the “basket case” of the 1970s—food production has quadrupled. Other indicators tell the same story.

Nevertheless, major problems persist. The *distribution* of this progress has been very uneven. Mass poverty persists in a number of countries and has even increased as a result of financial crises.

Developing countries are vulnerable not only to natural disasters and low prices for their primary commodities, but now also to instability in the international financial system brought about by globalization. Most noticeably, sub-Saharan Africa has made virtually no progress against poverty.

Fortunately, policymakers and specialists in the last three decades have arrived at detailed strategies for development that promote growth and reduce poverty—strategies that incorporate the following conclusions:

- Liberalized trade and economic openness have a beneficial impact on growth.
- Growth is important, for its own sake and for reducing poverty. It is not sufficient, however, to eliminate poverty.
- Measures to directly address poverty also are important for their own sake, and if done right they enhance economic growth. In addition, participation by people in the development decisions that affect their lives is critical to the success of programs.
- Similarly, good governance and democracy are important for growth and also goals in their own right.
- Investment in poor people—increasing their access to education and health, redistributing productive assets (credit and land), supporting small-scale rural and urban enterprises—is critical.

An international consensus—codified in the Millennium Development Goals—has emerged around the necessity of eliminating poverty.<sup>2</sup> Commitments by developing countries are critical in the effort to meet the Goals. Governments and their constituents are going to have to make tough choices in balancing economic efficiency, political openness, social progress, and equity—all while protecting the environment. This will mean commitments to adopt growth-oriented economic policies, to cut wasteful military expenditures, to redirect current social programs away from the middle class, and to transfer resources to poor people and poorer areas.

Commitments by *developed* countries also are critical to eliminate absolute poverty. The most important step is for these countries to drop high market barriers to products in which developing countries have a natural comparative advantage—particularly agricultural products and labor-intensive manufactures. Developed-country tariffs and subsidies cost developing countries far more than the annual foreign aid these countries receive from the industrial countries.

The World Bank estimates that if both industrial and developing countries drop existing trade barriers, developing countries would gain an additional \$1.5 trillion of income—which could result in 320 million people escaping poverty (and fewer infants dying before their fifth birthday) by 2015 (World Bank, 2002, page 176). Trade liberalization discussions now underway provide an excellent opportunity for the developed world to remove market barriers to those products with which poor countries already are competitive.

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<sup>2</sup>For a list of and details on the Goals, go to <http://www.developmentgoals.org/>.

Developed countries should also commit the financing needed to meet the Millennium Goals. Money matters if poverty is to be eliminated—but currently, total flows of Official Development Assistance (ODA) from developed countries to poorer ones are totally inadequate to support the programs and policies needed to meet the Goals. ODA flows in 2000 totaled \$53.7 billion—or just over 0.02 percent of the OECD-country gross national income. (The official target, honored by only a few countries, is 0.07 percent). If the Goals are to be achieved, the best estimates show that an additional \$50 billion a year in ODA will be needed.<sup>3</sup>

The issue is urgent. Currently, substantial parts of the world are not on track to reach the Goals by 2015. More than 100 million school-age children remain out of school. In some twenty countries, more than 1,000 women die for each 100,000 live births. In some countries, infant mortality is on the rise.

There is still some time for debate and policy invention, but it is not unlimited. Postponing these decisions for too long runs the risk on some issues of incurring higher costs to deal with problems that have become larger.

Fortunately, the broad shape of the world at mid-century is discernable, at least in terms of population. Population growth has slowed dramatically, although the momentum of past growth will continue for several decades. The UN's annual population projections show that, if current trends continue, the world's population could stabilize in 2050 at around 9 billion people, a figure far lower than once feared.

Most of these people will be living in developing countries. They will also be living in cities and not in the countryside. In fact, as early as 2015, more than half the world's population will be living in urban areas. The populations of the industrial countries, on the other hand, will be much older and dependent on an increasingly smaller group still in their productive working years. The impacts will be complex and little understood. It is possible that the bulge of working-age younger people in the developing world could provide a huge stimulus to global economic growth. On the other hand, if jobs are not created, the potential for instability and even conflict will only grow. But meeting the challenge will be made much more difficult if absolute poverty is not eliminated well before mid-century.

Given these demographic trends, the challenge for policymakers is to think in terms of “managing” a world with 50 percent more people than at the beginning of the 21st century. Over 95 percent of that population growth will occur in the developing world. In 2050, one in four people will be living in countries facing chronic or recurring shortages of water, and the world will have to double food production as early as 2025 simply to meet the needs of people who will then be alive. Furthermore, the age distribution of global population will also be quite different than today's population profile. The populations of most developing countries will be younger, and the need to provide gainful employment for these youth cohorts will be immense.

Many in the policy community still think of these issues as very long term. But 2050 is not that far away, and many now alive in the United States will still be living, including the children of those leaders now in power. Decisions taken—or not taken—in this decade will have a major impact on the shape of their lives. From this perspective, eliminating absolute poverty becomes very important. It is not only ethically right for its own sake; it also promotes fundamentally American interests.

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<sup>3</sup>See UN (2001) and Devarajan et al. (2002).

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