

## Has the economic crisis changed the map of World Poverty?

By Moreno ZANI

In February the World Bank published a report “New Estimates Reveal Drop in Extreme Poverty 2005-2010” which provided an overview on the group of people who live in a situation of extreme poverty; those living with less than \$1.25 per day. The latest data available from 2008 shows that 1.29 billions people or 22% of the population in developing countries are below the indicated poverty rate, and this percentage has been in constant decline since 1981.

The report also indicates that 43% of the population of these developing countries, 2.47 billions people, live with less than \$2.00 per day, a number only slightly lower than the 2.59 billions people in the same situation in 1981.

Recent studies confirm that the world population in 2011 has surpassed the 7 billions mark. Therefore it can be confirmed that 35% of the individuals who live on our planet, one person in three, survive on less than \$2.00 a day, and this is a conservative estimate. As underlined in the report, in the lower-income countries of the Middle East, North Africa, and sub-Saharan Africa, statistics are still not accurate and the sampled households analysed are well below 90% of the total population, with extremes below 50% due to a total lack of data. The latter situations should be further scrutinised in combination with other factors such as easy access to water, food, education, and ownership of durable goods, just to name a few.

In the table below, it has been used the statistical model implemented by the World Bank to elaborate a forecast: considering that the minimum poverty level used today could be too low (data from 2008), increasing the level to \$2.5 per day (\$76.00 PPP/mo, still a poverty level), the data that emerges shows that the population in situation of extreme poverty would be 52% of the total population of developing countries. A pretty relevant data point, and proportionally more than the increased income level, which can make us doubt the real improvement of life conditions in the sample analysed.

2008

Region	Pov.line (PPP\$/mo)	Headcount (%)	Pov. gap (%)	Squared pov. gap	Num of poor (mil.)	Population (mil.)	Survey coverage
East Asia and Pacific	76.00	44.09	16.62	8.17	874.31	1,983.01	93.60
Europe and Central Asia	76.00	3.91	1.05	0.45	18.52	473.74	89.90
Latin America and the Caribbean	76.00	17.02	7.35	4.63	96.94	569.54	94.50
Middle East and North	76.00	24.80	6.40	2.46	79.37	320.03	46.70

Africa							
South Asia	76.00	82.35	36.43	19.18	1,306.64	1,586.69	97.90
Sub-Saharan Africa	76.00	77.85	42.90	28.28	632.53	812.50	71.90
<u>Total</u>	76.00	52.36	23.04	12.75	3,008.35	5,745.52	88.80

Source: statistical model World Bank/PovcalNet 2012

These are the data points. The conditions which led to their creation can be many, and they can be evaluated mainly on the basis of the internal policies chosen, the results achieved through the sustainability and development projects organised by the World Bank and/or the IMF, and the influences derived from the financial investment decisions of the bigger players (transfer of wealth).

A socio-economic analysis of the causes could help us understand the reasons of the current imbalances and also their effects. Embarking on a historical *excursus* would help to understand the origin of these socio-economic differences in the various regions of the world and what could be possible future scenarios.

The low development of poor and/or emerging countries (China could be a different case) has origins in time from the age of colonialism, with the destruction of local hierarchies and subjugation of those populations involved in the extraction of precious minerals, then transferred to the rich European regions, and formed the basis of low cost work force in the big plantations. At the end of the two World Wars many of these “poor” countries obtained independence and were faced with the task of developing their economy without the contribution of external capital and professional skills that would be needed to achieve this objective. Thus was born an economic subordination versus rich countries with an unequal exchange of raw materials and finished products, exploitation of their lands with little legal or environmental limits, and the movement of part of the population into inadequate urban areas. Furthermore, issues arose as well from internal politics, distribution of wealth, education, and strong demographic growth.

The economic conditions amongst these countries are very different. In some countries Western economic development brought additional impoverishment. On the contrary in the BRICS (Brazil, Russia, India, China, and South Africa) initiated an important growth phase which is bringing them to achieve GDP's equal or even superior to some of the older-denominated G8 countries. Think of China, which has embarked on an economic transformation such as to be a net exporter of products, an importer and developer of technologies, an investor in stockpiles of raw materials, domestically and abroad, and beyond.

We need to reflect on this gap, which derives from our analysis of the data contained in the report from the World Bank. If undoubtedly there has been a global decrease of the number of people in extreme poverty, it's useful to highlight that the regions where this decrease has occurred are also very specific. An important part comes definitely from China, where the number of destitute people has decreased by 600mln. The situation is different in countries part of South Asia or the sub-Saharan Africa. Note also, that the data points stop at 2008, the beginning of the still on-going economic crisis, and it's possible that the impact will be zero or even generate an improvement in the BRICS – who, in these difficult years, have continued their course of growth – while there could have been a deterioration in the other developing countries and also within Europe, with new levels of poverty even if not comparable to the extreme poverty level.

Even within China, where the number of inhabitants could represent a significant example, it's true that the number of people who live with less than \$1.25 is decreasing, but it's also true the connection to economic growth which then propagates an increase in prices. Are we sure that \$1.25 per day still represents the right extreme poverty level?

It is important to dwell upon the decrease and/or distribution of poverty on the planet, but a deeper reflection is needed on what consequences this global social, economic, and financial scenario will have, with the dynamics we have illustrated together with the definitive effects the economic crisis has had, once it has concluded.

The interconnections within the global economic system brings both negative and positive aspects, which in the medium/long period could bring about an acceleration of the phenomenon described in the World Bank's report, with significant effects. The current economic crisis together with the trend indicated in the report should push all the players (rich countries, BRICS, and the poor/developing countries) towards immediate decisions and precise behaviours.

From the point of view of the poor/developing countries, investments should be financial but above all cultural and systemic; increasing competition, eliminating limits imposed by oligopolies, and controlling the price dynamics tied to the accelerated economic growth deriving from foreign investments. All of which works toward a better distribution of wealth and a reduction of the social imbalances, still very evident in many of the so-called "poor" countries (illicit work practices including minors, crime, drugs, etc.). The result could be a heightened awareness of the citizens, which could lead to a limit on fiscal crime and also political dictatorships, and the chance to create better life conditions for future generations (especially in health services and school education, which is the basis of cultural growth in any country).

Looking instead at the so-called "rich" or high-income countries, the freedom of movement of goods, people, and capital will bring about a movement of the production and financial investments towards those countries where the characteristics (fiscal, labour costs, laws) are deemed to be more appealing. This could cause a transfer of wealth and affluence towards new players of the global economic system with problematical consequences in social and budgetary issues. Therefore, the need to refocus the supply of goods and services and concentrate on those with more added value, so as maintain (or nearly) the quality of life of those citizens in countries of "old" wealth.

Lastly, the BRICS, to continue the trend indicated in the World Bank's report, should evolve beyond their phase of simple producers and exporters of goods and services towards richer countries, by increasing their attention on internal demand and above all, stimulate a normalisation process in the social conditions of the population, who are beginning to claim rights already available in countries with richer histories and traditions, before internal disorders breakout. This would also help those historically rich countries to overcome the current economic crisis and avoid a tightening of conditions which would end up stifling the BRICS with negative implications regarding new wealth creation and improvement in income levels for their populations.

If the trend indicated by the World Bank's report continues, it would be best to implement corrective measures so as to avoid the risk of decades of such poverty moving from one geographic zone to another, and above all, to avoid a new level of extreme poverty, just a few dollars higher, where we would find both the "old" extremely poor but also the "new" poor, who due to the economic crisis, would arrive from higher levels of income even in the historically and traditionally richer countries.

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