Can we make poverty history?

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Introduction

This brief article is based on some of the material used in my lecture at the Radical Statistics Annual conference held in Manchester on 26th February 2005. It also incorporates and updates some material published in the Spring 2005 issue of Policy World – the Newsletter of the Social Policy Association.

The Idea of Ending Poverty

The idea that it is possible to end poverty is over 200 years old. The French enlightenment philosopher Marie Jean Antonine Nicolas de Caritat, Maquis de Condorcet argued in *Sketch for a Historical Picture of the Progress of the Human Mind* (published posthumously in 1794 by the government of the new French Republic) that poverty was not a result of natural laws or divine will but was caused by '*the present imperfections of the social arts*' (Steadman Jones, 2004). He argued that poverty could be ended by the universal provision of pensions, grants to the young, sickness benefits and state education. Similar 'welfare state' solutions for poverty can also be found in Thomas Paine's *Agrarian Justice (*1785) and *Rights of Man* (1791) which argued for progressive taxation and death duties to fund child benefits, pensions and education. The need to end poverty was seen as necessary to reduce social and economic polarisation, which if allowed to persist would undermine the stability and unity of the democratic republic.

The possibility of ending world poverty during the 21st Century has gained increasing public support over the past decade. In 1985, Live Aid demonstrated the strength of public concern in the face of an inadequate and hostile response from Margaret Thatcher's government to poverty and starvation in Africa. In the early 1990s, Martin Dent and Bill Peters and 40 of Martin's students helped to found the Jubilee 2000 campaign to try to win remission of the unpayable debts of the world's 50 or so low-income countries. The idea was to revive and link the Jubilee concept - based on the old Judaic tradition of a jubilee year every fifty years when debts were cancelled - with the celebration of the new millennium. From these humble academic beginnings in the Politics department of Keele University the campaign went on to amass 26 million supporters in 60 countries and put the issue of international debt firmly on the political agenda[1].

In 1995, the World Social Summit in Copenhagen (followed by the 1997 launch of the United Nations First Decade for the Eradication of Poverty) helped to raise international public awareness and lend political legitimacy and credibility to the anti-poverty campaigns of many NGOs.

In the UK, there appears to be growing electoral support for increased aid to help achieve the Millennium Development Goal[2] targets to halve extreme poverty by 2015. Many hope for a significant breakthrough this summer at the G8 Summit[3] to deliver a new 'Marshall Plan' of a doubling of aid (to £55bn a year), debt reduction for the poorest countries and fairer trade.

Unfortunately, the US government at present does not seem willing to support such a plan and George W Bush has recently made a number of successful 'nominations' of 'neo-liberal' politicians to crucial UN positions. They seem unlikely to vigorously pursue an international anti-poverty agenda. In particular, the appointment of US Agriculture Secretary Ann Veneman to head UNICEF and US Deputy Defence Secretary Paul Wolfowitz to head the World Bank do not inspire confidence that anti-poverty goals will be met.

However, even if all the members of the G8 were to sign up to and deliver on this new 'Marshall Plan', there would still be considerable grounds for concern that the Millennium Development Goals would not be met. A major problem is that the World Bank has effectively been pursuing the same broad set of anti-poverty policies for the past 40 years – despite a long history of failure. These policies have three main elements:

- Broad based economic growth.
- Development of human capital through education and health interventions.
- Minimum social safety nets for the poor.

[1] See http://www.new-politics.net/publications/interviews/martin-dent
[2] http://www.un.org/milleniumgoals
[3] http://www.g8.gov.uk

The way the World Bank implements these policies is by adhering to neo-liberal economic orthodoxy which Joseph Stiglitz (2000), who used to be Chief Economist of the World Bank, has described as:

- privatisation, which tends to raise prices for the poor;
- capital market liberalization, which can allow speculators to destabilise countries' economies;
- market based pricing, which is a way of cutting subsidies for basic food stuffs and fuel and has sometimes resulted in rioting, particularly in South America, eg Bolivia, Ecuador and, recently, Argentina (economists should not be provoking riots around the world);
- free trade, which sometimes helps countries economies but does not always help the poor.

Growth is Good for the Poor?

The World Bank took a lot of criticism[4], particularly in the run up to the year 2000, when it produced its decennial report on poverty. Just before the report was released, the Head Economist of the Bank, David Dollar, with one of his colleagues, Aart Kraay, released a paper which purported to prove that growth was good for the poor, that the World Bank's policies worked and were the most effective ones[5]. They looked at data over 40 years from 118 countries and published their findings

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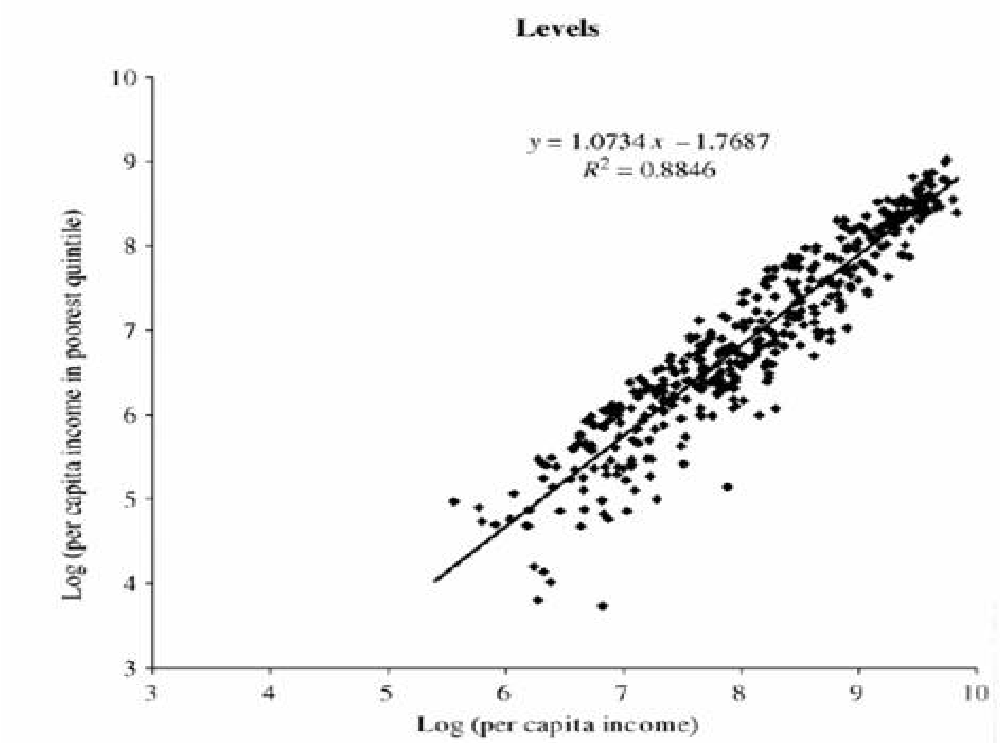
[4] In pursuit of economic growth the World Bank has been the main promoter of Structural Adjustment Programmes in developing countries. These usually consisted of reducing public spending, reducing inflation, opening local markets to global competition and following other 'neo-liberal' economic policies. These programmes were often met with antagonism in most of the countries they were supposed to help and resulted in considerable animosity against the Bank. According to Professor Else Øyen (President of the Comparative Research Programme on Poverty) this was *"partly due to the harshness of the programme implementation, the failure to obtain the promised results, and the wide spread view that the Bank was on the side of the non-poor, not the poor."*

[5] The World Bank published a 'preliminary' paper by David Dollar and Aart Kraay called "Growth is Good for the Poor" This paper marked 'preliminary and incomplete' was widely distributed and given a huge fanfare of publicity. For example; The *Financial Times* said that the paper *"provides what appears to be incontestable evidence"* that sustained growth raises the real incomes of the poor and that growth is *"helped along by just the policies many of the demonstrators oppose: by macro-economic stability and openness to trade"*. Even the Guardian joined in. Mark Atkinson wrote on the economic pages that the report illustrated *"the harm that would be inflicted on the poor if governments were to listen too hard to the protesters at Seattle and retreat from open markets"*.(for the preliminary paper go to http://www.worldbank.org/research/growth/pdfiles/growthgoodforpoor.pdf).

in the *Journal of Economic Growth*[6], a prestigious peer-refereed journal. Their report shows that, as average income increases, so does the income of the poorest 20% of the population. Their graph shows virtually a 45° line - it has a slope of 1 (see Figure 1 below from Dollar and Kraay, 2002). So, as average income increases so does the income of the poorest.

Figure 1: Growth is Good for the Poor?



In Social Science, if you get a very high correlation and a 45° line, you have either discovered a new law of nature or you have made some sort of statistical error. Dollar and Kraay concluded from their analyses the following:

In a large sample of countries spanning the past four decades, average incomes of the poorest fifth of a country on average rise and fall at the same rate as average incomes. This relationship holds across regions and income levels and in normal times as well as during crises. This supports the view that a basic policy package of private property rights, fiscal discipline, macroeconomic stability and openness to trade on average increases the income of the poor to the same extent that it increases the income of the other households in society. On the other hand, we find little evidence that formal democratic institutions or a

[6] A modified version of the original 'Growth is good for the poor' paper was eventually published two years later; Dollar, D. and Kraay, A. (2002) Growth is good for the poor. Journal of Economic Growth, 7, 195-225.

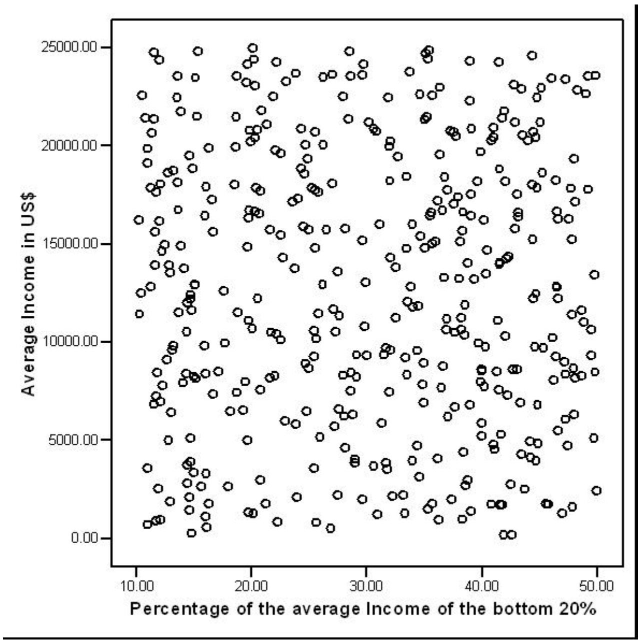
large degree of government spending on social services systematically affect incomes of the poor.

Basically, what they argued was that the World Bank's policy on broad-based economic growth was right. As incomes went up, it didn't matter whether you were rich or poor, if there were good times or bad, crises or not, the incomes of the poor would also go up. Government policies on social spending aimed at the poor had no effect, democracy had no effect, neo-liberal economic growth was the answer[7].

Are Random Numbers Good for the Poor?

I do an exercise with Masters in Policy Research students learning Quantitative Methods at Bristol. Instead of using 418 data sets collected at great expense, we generate two sets of 418 random numbers. There is of course zero correlation between these two sets of random numbers (Figure 2).

Figure 2: Random Average Income Vs Random Income Share of the Poor

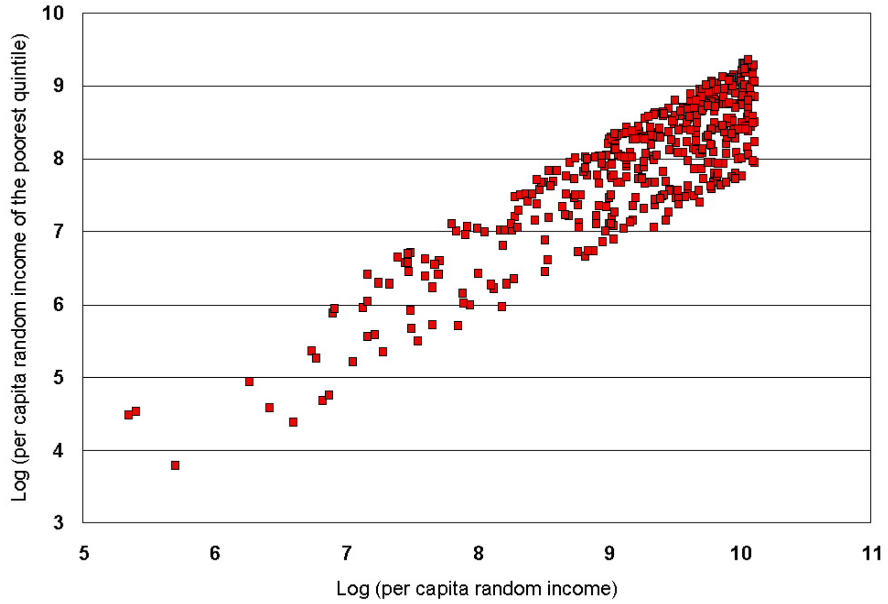


We then apply the analysis method used by Dollar & Kraay (2002) to show that growth is good for the poor (Figure 3). Apparently, random numbers are also good for the poor.

[7] The Guardian reported that "the… remarkable conclusions have been greeted with glee by economic fundamentalists". (Richard Douthwaite, Wednesday June 14, 2000 - http://www.guardian.co.uk/guardiansociety/story/0,,331543,00.html)

Figure 3: Are Random Numbers Good for the Poor?

(The same set of random numbers analysed using the methodology of Dollar & Kraay)



Head Economists at the World Bank often win the Nobel Prize - they are not stupid. How on earth could they make this kind of mistake? Well, they were under a lot of pressure but they also are working in a milieu in economics at the moment which thinks it has found a universal solution.

Faith in the Market

Some critics have argued that there is a faith in neo-liberal economics that is almost religious[8]. Edward Luttwak (1999) said:

> "at present almost all elite Americans, with corporate chiefs and fashionable economists in the lead, are utterly convinced that they have discovered the winning formula for economic success – the only formula – good for every country, rich or poor, good for all individuals willing and able to heed the message, and of course, good for elite Americans
>
> Privatisation + Deregulation + Globalisation = Turbo – Capitalism = Prosperity"

[8] For example see Frank, T. (2001) *One Market Under God: extreme capitalism, market populism and the end of economic democracy*. London, Secker & Warburg.

George Gilder (Ronald Reagan's favourite economist and the man he quoted the most in his speeches) wrote a very influential book in 1981, entitled *Wealth and Poverty*. He argued that spending on poor people just made them dependent on benefits and that the problem with poverty was that:

> The world is plagued not so much by poverty but by a rampant "suspicion of wealth…everywhere these ideas prevail…poverty persists and spreads"
> George Gilder (1981) *Wealth and Poverty*

He also added later on:

> "It is the entrepreneurs who know the rules of the world and the laws of God"
> George Gilder (1984) *The Spirit of Enterprise*

A recent editorial from the Economist (13/03/2004) argues exactly the same message as Gilder made in the 1980s:

> "towards the end of the century, many developing countries – China and India among them – finally threw off this victim's mantle and began to embrace wicked capitalism, both in the way they organised their domestic economies and in their approach to international trade. All of a sudden, they are a lot less poor, and it hasn't cost the West a cent"

Apparently, the five year plan of the Central Committee of the Communist Party in China is a capitalist model of neo-liberal economics[9].

Faith is a good thing in religion but in Social Science you have to treat it with in the same way as Mark Twain advised, when he said:

> "your faith is what you believe, not what you know"

[9] Strangely enough the Guardian (27th May 2004) (http://www.guardian.co.uk/china/story/0,7369,1225686,00.html) reported that James Wolfensohn (President of the World Bank), found himself in the unusual position of praising the Communist party's five-year economic plans. *"Shanghai is the obvious place to start in considering ways to reduce poverty. There is something here we need to learn about constancy and good management," he said. "This is not a conference for teaching the Washington consensus. The Washington consensus has been dead for years. Today there is no consensus. We are not here to teach doctrines but to exchange ideas."*