

# 2

## SOCIOECONOMIC FAULT LINES

### Inequality, Poverty, and Development

#### LEARNING OBJECTIVES

After completing this chapter, students should be able to do the following:

- 2.1 Describe the trends in inequality of income and wealth within the globe among regions, and nations as well as among individuals
- 2.2 Assess the consequences of globalization, positive and negative, for people's life chances
- 2.3 Assess how globalization, historical, environmental, cultural, and geographic factors contribute to uneven development and inequality among countries
- 2.4 Explain the relationship between labor force participation in economic sectors and human development
- 2.5 Propose actions that international governmental organizations, the private sector, nongovernmental organizations, and states can take to improve people's life chances

#### What is Gold Worth?

Michelle, a 15-year-old Filipino girl, works at an underwater gold mine. She started when she was 8 years old. She, along with many of her friends, spends much of her day standing waist deep in a mercury-contaminated river panning for gold ore. When they find ore, they mix mercury into it in open wooden pans with their bare hands and then burn it, without anything to protect them from the toxic fumes. Michelle and her friends report that they suffer from tremors and muscle spasms. They thought that the cold water caused their problems. No one told them that mercury was toxic.

Mercury is a toxin that attacks the nervous system. Mercury exposure can cause brain damage, tremors, partial blindness, deafness, memory loss, and spasms, among many other problems. Household use and many other uses are banned in the United States and other developed countries.

Children may be submerged for hours a day in the polluted water, digging gold ore out of the mucky river floor. Even though underwater mining is identified as being among the worst forms of child labor,<sup>1</sup> 14 percent of children who live in the mining areas of the Philippines—about 18,000—work in the mines, underwater and underground. Many are 9 or 10 years old, some even younger. In addition to tremors and spasms, they complain of back, shoulder, hand, and other pain from carrying heavy

loads of ore and from being submerged in cold water. Some children die from suffocation when their air compressors fail. None of them knew of hidden, long-term consequences they now suffer.

The Philippines is one of the largest producers of gold in the world. Small-scale mines are scattered through 30 provinces. Although children under 18 years are not permitted to labor in hazardous conditions, laws are rarely enforced in the small mines that produced 70 to 80 percent of the nation's 18 tons of gold in 2014. Tens of thousands of children work in equally hazardous conditions in the small-scale gold mines in Africa, Asia, and Latin America. Many toil with rarely a day off, and many never go to school, let alone enjoy the lifestyle of children in the developed world.

Ruth, who was 9 years old when she started laboring in the mines, is now 15. She says, "There were times I would think about slashing my wrists because I couldn't take the hardship."

*Is the gold worth the cost of these children's health, education, and future? What chance at life do Michelle and Ruth have?*

Source: As reported by Kippenberg, Juliane. 2015. "What . . . If Something Went Wrong: Child Labor in Small-Scale Gold Mines." New York: Human Rights Watch. [https://www.hrw.org/sites/default/files/report\\_pdf/philippines0915\\_brochure\\_web.pdf](https://www.hrw.org/sites/default/files/report_pdf/philippines0915_brochure_web.pdf).

*The personal is political* was an anthem of the feminist movement of the 1970s. As a slogan, it insisted that the personal problems that women faced—from poverty, to inequality in the workplace, to lack of representation in the power centers of governments and the economy—were a function of systematic discrimination, not personal failing. The slogan applies not just to women. It also applies to the poor and to racial, ethnic, religious, and other minorities all over the world.

Despite the Millennium Development Goals' success in more than halving the number of people living in extreme poverty (under US\$ 1.90 a day) from close to 2 billion in 1990, nearly 10 percent of people lived in extreme poverty in 2015 (Figure 2.1). Tragically, COVID-19 erased much of the advance. In 2020, poverty rose for the first time in two decades, bringing it to between 9.1 percent and 9.4 percent in 2020, close to the 9.2 level of 2017. Now, estimates stretching to 2030 propose a 6- to 7-year setback in poverty reduction (Mahler et al. 2020). Between 657 and 676 million people are now living in extreme poverty. The combined effects of COVID, the war in Ukraine, and inflation are projected to push an additional 75 million to 95 million people into poverty (Gray-Molina et al. 2022).

Poverty and inequality are widespread throughout the world and within societies but are not spread randomly. They are built into the global economy and enshrined in both national and global policies. Who benefits most from a country's economy and who receives the least is a function of both the society's position in the world and individuals' positions within the society. Personal experiences of inequality are political.

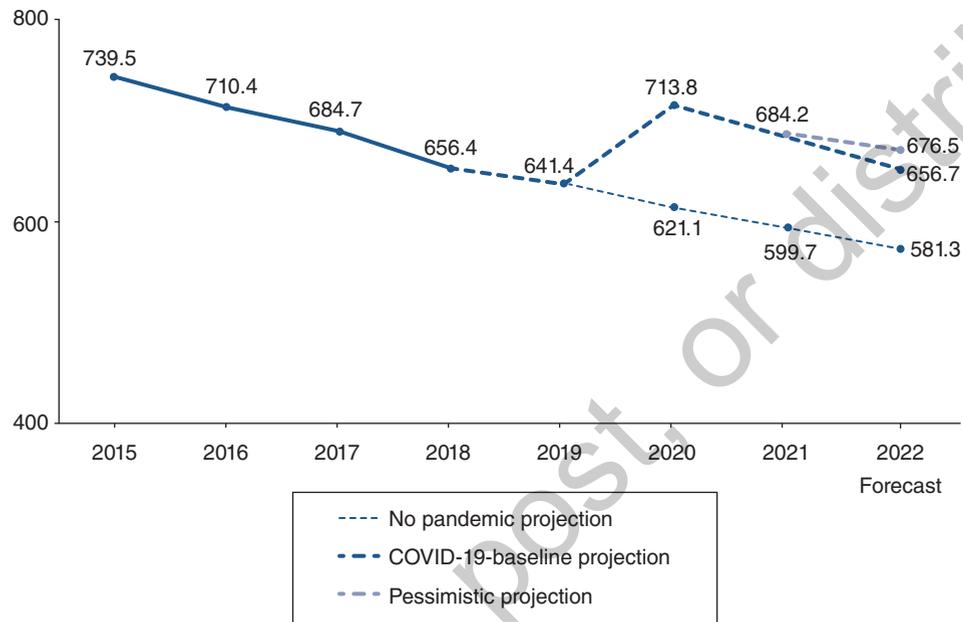
This chapter examines the functions and dysfunctions of the global economy—who benefits and who does not. Poverty and economic inequality plague both global and domestic economies. Both affect an individual's life chances. This chapter explores the links among societal and global development, economic inequalities, and life chances.

## A CLOSER LOOK

### PEOPLE LIVING ON LESS THAN US\$ 1.90 A DAY

**FIGURE 2.1** ■ Number of People Living on Less Than US\$ 1.90 a Day, Projections, 2015–2022

Before the COVID-19 pandemic, projections were that poverty would continue to decline. Poverty is expected to increase due to COVID.



Source: UNDESA. 2022. "Sustainable Development Goals Report: 2022." P. 26. <https://unstats.un.org/sdgs/report/2022/The-Sustainable-Development-Goals-Report-2022.pdf>

## HOW WELL DOES THE GLOBAL ECONOMY FUNCTION?

*How bad can life be that families keep their children out of school and put them to work in dangerous conditions? How can the global community, which has so much wealth and plenty, allow this to happen? How and why has the global economy failed so many people?*

We can evaluate an institution by how well it fulfills its primary functions. An economy should procure, produce, and distribute adequate means of survival for the people dependent on it. For the global economy, that is all humankind. The means of survival include food, water, shelter, energy, and freedom from preventable illness. The economy should not sully the necessities of life such as air, water, land, and other living things because health and long-term sustainability depend on them. The means through which the global economy provides for life chances are the subject of continual debate. What cannot be denied is that billions of

people are living on the edge of survival and too many are not surviving. The global economy is failing many people in the world. Here is a sampling:

- One third of people globally do not have safe water; 700 children under age 5 die every day due to diarrheal disease (UNICEF 2021a)
- The third leading cause of death for girls aged 15 to 19 and the fourth leading cause for boys 15 to 19 is suicide. Poor mental health and mental health services are at a crisis level globally (UNICEF 2021b)
- More than 9 million people die of hunger and hunger-related diseases every year; 10 children die of hunger every second (The World Counts 2022)
- The dominant form of political violence is conflict among groups within societies
- Over 4.2 million people die prematurely every year from a combination of inside and outside air pollution (WHO 2021, 2022)

It is not surprising that the opportunities to achieve our potential are not randomly distributed. For the most part, the previous statistics are characteristic of developing countries. Living in a poor country makes a person more likely to be a victim of food scarcity, to live in a slum, to live without electricity, to be poisoned by air pollution, to lack basic health care, and to die early. People in developing countries are more likely to be victims of violent conflict, human trafficking, environmental destruction, and nearly every global social problem. That is the cost of global inequality among countries.

The relative position of individuals within societies also affects life chances. It goes without saying that those at the bottom of the economic pyramid, at both the societal and global levels, suffer more than those at the top. The poor in some rich societies have life expectancies, health, and education outcomes similar to those in many developing societies. For those reasons, it is necessary to examine both global and domestic economies and inequalities. In addition, it is important to note that in societies that have limited people's life chances through inequality, everyone suffers, not only those at the bottom.

## UNDERSTANDING INEQUALITY

Measuring inequality is not as straightforward as it might seem. Both income, usually measured as an annual flow of money accruing to an individual, a household, society, or the world, and wealth, the total financial assets of these actors, are important when considering inequality. How much income comes from labor—a wage—and how much accrues through ownership of financial assets (stocks, bonds, real estate, etc.) is critical to understanding the capacity of an actor to accumulate wealth.

There are several ways to measure inequality. The Gini ratio looks at the deviation of the actual distribution of income or wealth in comparison with perfect equality, with perfect equality being 0 and one person owning everything being 1. The Palma method looks at the relationship between the bottom 40 percent and the top 1 percent. Other methods look at some portion of the top (1, 10, or 20 percent) in relation to some portion of the bottom, or the earnings of people at the 90th percentile in comparison with people at the 10th percentile (the 90/10 inequality ratio).

## Income Inequality Among Regions

The World Bank is a major source of data on income, inequality, and life chances. The World Bank reports that the value of the world production in 2021 was over US\$ 96 trillion. While there is sufficient income to give everyone sufficient life chances, inequality of life chances is high, as is evident by comparing gross national income (GNI) per capita by region (Table 2.1). Growth has been uneven; while a few regions<sup>2</sup> are converging with higher income countries, many are relatively stagnant or have declined. Sub-Saharan Africa has only 6 percent of the GNI per capita of North America, and South Asia has less than 10 percent. GNI per capita of low-income countries is only about 1/60th that of high-income countries. There is also significant inequality among countries within regions.

Comparing the ratio of the incomes of developing regions to that of developed regions over time shows that inequality is decreasing somewhat. The income gap between developing and developed nations has been decreasing since about 1990. However, the increase is due primarily to growth in East Asia, particularly the rapid growth of China and India at the end of the 20th century. The relationship of other regions to the developed world remain virtually unchanged, indicating that inequality between each of these countries and the developed world is virtually unchanged.

### A CLOSER LOOK

#### INEQUALITY AND THE INCOME GAP BY INCOME LEVEL AND REGION

**TABLE 2.1 ■ GNI Per Capita by Level of Development and Region 2021**

The GNI per capita of the lowest income category is less than 2 percent of the high-income category. The GNI per capita of sub-Saharan Africa is only 2.3 percent of that of North America.

| Income Category       | Low                   | Lower Middle                | Upper Middle                 | High       |                    |               |                                      |
|-----------------------|-----------------------|-----------------------------|------------------------------|------------|--------------------|---------------|--------------------------------------|
| GNI per capita        | \$722                 | \$2,485                     | \$10,363                     | \$47,904   |                    |               |                                      |
| Regions               | East Asia and Pacific | Latin America and Caribbean | Middle East and North Africa | South Asia | Sub-Saharan Africa | North America | Europe and Central Asia <sup>a</sup> |
| GNI per capita (US\$) | \$12,740              | \$8,024                     | \$7,049                      | \$2,104    | \$1,578            | \$68,152      | \$26,421                             |

a. Europe and Central Asia include the former Warsaw Pact countries in Eastern Europe, Russia, and the other former Soviet countries that comprise the USSR.

Source: Adapted from World Bank. 2022a. "Data Bank: World Development Indicators: Size of the Economy." <https://databank.worldbank.org/source/world-development-indicators>.

## Wealth Inequality Among Regions

Whereas income is an amount received over a period of time, wealth is the net assets, both financial and nonfinancial, minus debt. Because it takes money to make money, wealth inequalities are greater than income inequalities. Every region except Europe and North America has a lesser

**TABLE 2.2** ■ **Distribution of Global Wealth among Regions 2020**

| Region                     | Percentage Share of Adults | Percentage Share of Wealth | Wealth per Adult | Financial Wealth per Adult | Nonfinancial Wealth per Adult | Debt per Adult | Median Wealth per Adult <sup>a</sup> |
|----------------------------|----------------------------|----------------------------|------------------|----------------------------|-------------------------------|----------------|--------------------------------------|
| Africa                     | 11                         | 1.1                        | 5,307            | 2,412                      | 3,561                         | 666            | 813                                  |
| Asia–Pacific               | 22.9                       | 21.4                       | 48,523           | 28,531                     | 26,869                        | 7,185          | 2,673                                |
| China                      | 22.7                       | 8.8                        | 20,002           | 8,499                      | 12,515                        | 1,012          | 7,885                                |
| Europe <sup>b</sup>        | 13.2                       | 36.0                       | 140,839          | 68,284                     | 98,617                        | 26,062         | 17,013                               |
| India                      | 16.2                       | 2.2                        | 7,049            | 1,252                      | 6,314                         | 517            | 1,630                                |
| Latin America              | 8.4                        | 3.0                        | 18,342           | 8,799                      | 12,290                        | 2,747          | 4,767                                |
| North America <sup>c</sup> | 5.6                        | 27.5                       | 252,037          | 211,600                    | 100,704                       | 60,267         | 47,689                               |
| World                      | 100                        | 100                        | 51,545           | 30,549                     | 30,077                        | 9,080          | 4,294                                |

a. Notice the difference between mean (per capita) and median incomes. Mean income and wealth figures allow for comparisons in income and wealth among countries. However, they do not indicate the average person's income because people with extreme wealth skew the mean upward. The median is a much better indicator of how well the average person is doing. Because of inequality, the mean income in the United States is tens of thousands of dollars more than the median.

b. In this table, Europe includes Eastern European countries, not only the richer Western European countries.

c. According to the Credit Suisse 2021 Wealth Databook, the United States has 36.86 percent of global wealth and about 5.38 percent of global population.

Source: Adapted from Shorrocks, Anthony, James Davies, and Rodrigo Lluberas, 2021. "Global Wealth Report 2021." Credit Suisse Research Institute. <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/global-wealth-report-2021-en.pdf>.

share of the world's wealth than their share of population (Table 2.2). The Asia–Pacific region is close to even. The more wealth in a region or country, the more it can invest in its people. The country and region into which people are born significantly affects their life chances.

By comparing the percentage of the global population in each region with the percentage of its share of various forms of wealth and debt, it is evident that global wealth is very unequally distributed. How might this affect life chances?

## Inequality Among Individuals

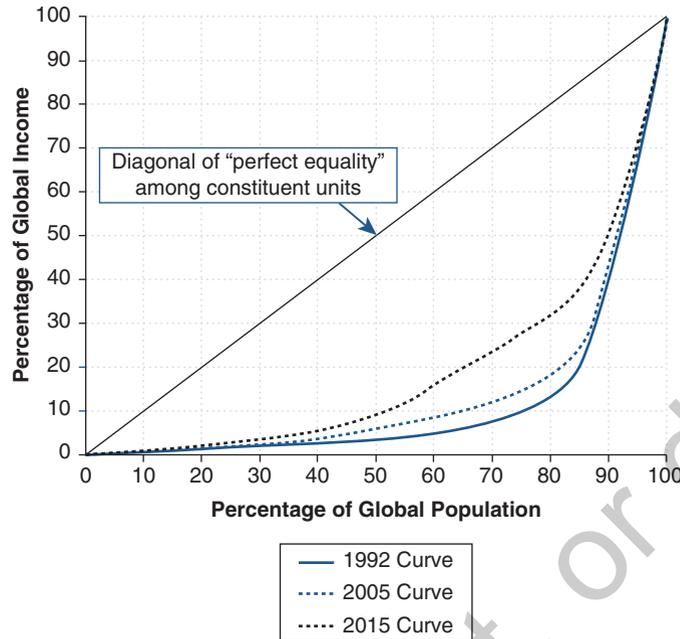
### Global Inequality of Income

Estimating the distribution of income among individuals both globally and within societies provides another perspective on inequality.

The Lorenz curve visualizes the percentage of a given variable—in this case global income—that accrues to every percentage point of a population—in this case all the people in the world (Figure 2.2). If there were perfect equality, every percentage point of the population would receive 1 percent of the global income, producing a straight line when graphed. The curve on the graph is the actual distribution. The innermost curve represents the actual share of income received by percentage of the population in 2015. The curve hugs the graph below 10 percent of global income until it reaches 50 percent of the population—indicating

**FIGURE 2.2** ■ Global Inequality of Income: The Lorenz Curve

Measuring global inequality of income using the Lorenz curve and Gini coefficient shows a decrease in inequality from 1992 to 2005 to 2015.



Note: Inequality is measured by the area inside the diagonal and the curves.

Source: Center for Systemic Peace. 2017. "State Fragility and Warfare in the Global System 2016." <http://www.systemicpeace.org/warlist/warlist.htm>.

that half the global population has hardly any of the global income—and shows that 80 percent of the population receives only 30 percent. The curve then rises rapidly, indicating the disproportionately large share of income accruing to the richest people in the world. The share of income of the richest 10 percent (640 million) of people based on the populations and GNI per capita of the richest countries barely changed during those years, claiming 42 percent of global income in 2010. The poorest quintiles barely changed either at only 1 percent (Conference Board of Canada 2011).

The Gini coefficient is a measure of the deviation of the actual distribution from the line of perfect equality.<sup>3</sup> The larger the Gini coefficient, the greater the inequality. There was a slight decrease in global inequality of income from 1992 to 2005 and a much more significant decrease in 2015. The decrease reflects the reduction of poverty in China and, to a lesser extent, in India, Brazil, and South Africa. The Gini coefficient decreased from 68.7 to 64.9. If growth rate projections made at that time had held, the Gini would decrease to 61.3 by 2035. The majority of decrease in inequality would arise from increasing incomes at the bottom of the pyramid (Roser 2016).

COVID-19 and subsequent variants dampened growth globally and projections such as these will not apply.

The disparity between the proportion of the world's population in each region and the proportion of global wealth highlights that there are sufficient global resources to alleviate the

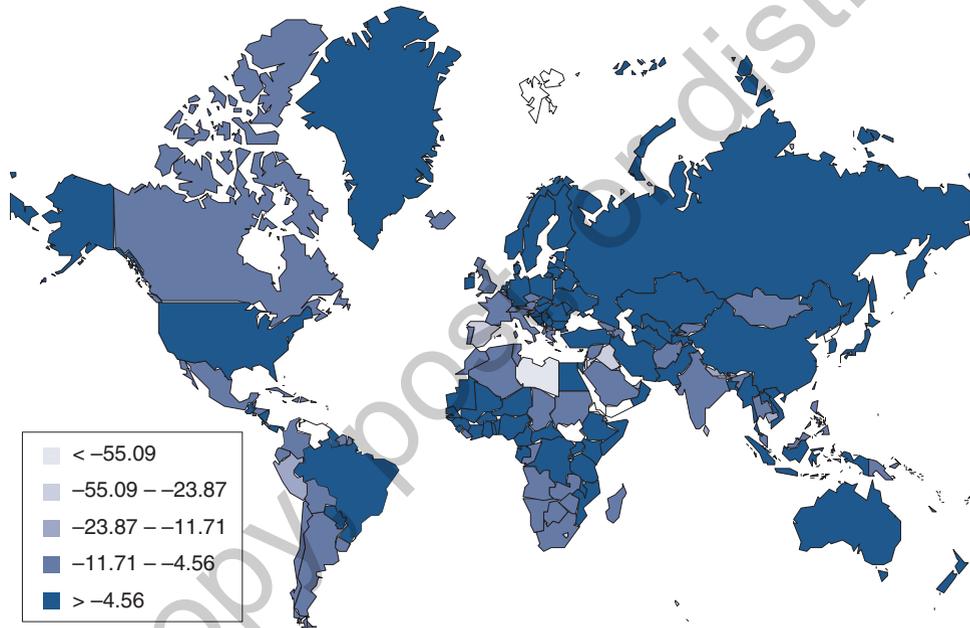
world's problems of hunger, malnutrition, water, and shelter. It is the distribution of resources, particularly but not only income and wealth, that is the primary factor preventing people from having equal life chances.

## A CLOSER LOOK

### ECONOMIC GROWTH 2020

**FIGURE 2.3** ■ Annual Growth of GDP Per Capita 2020

As this map shows, few countries experienced growth in 2020. Nearly every country is in a negative growth percentage. The original of this map is interactive, if you refer to the original source online, you can click on countries to see their growth rates.



Source: The World Bank. 2022b. "GDP per capita growth (annual %)." IBRD.IDA. <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG?end=2021&start=1961&view=map&year=2021>.

### Inequality of Income Within Countries

Income inequality within countries persists and has grown in many countries over the past decades. From the mid-1970s onward, the primary beneficiaries of growth have been the richest people in the richest countries and an emerging middle class in developing nations such as China. Others, not so much.

As countries developed from the simplest to more complex economies, inequality increased. Inequality peaked in the feudal agricultural societies in which nobility, a small portion of the population, had extreme wealth and peasants, the vast majority of people, had little. As societies industrialize, a middle class emerges, making societies more equal within. However, as societies moved into the service and information economies, inequality typically—but not

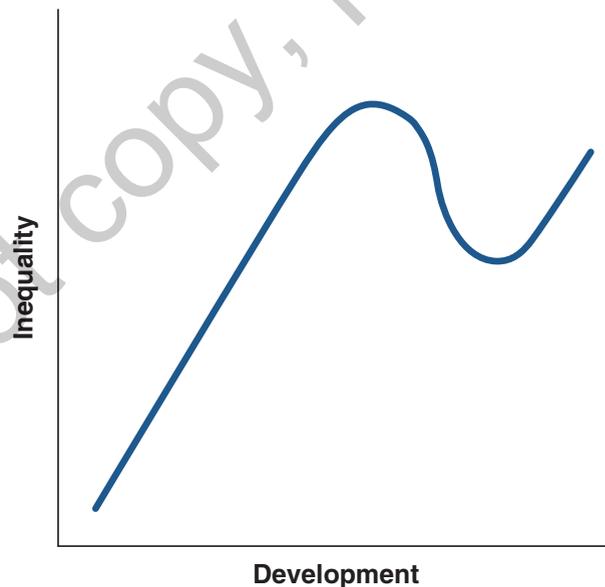
inevitably—begins to increase again. This pattern of increasing inequality, then decreasing, and then increasing again is the *Kuznets curve* (Figure 2.4).

In many societies, inequality is increasing to extreme levels. The Bureau for Development Policy of the United Nations Development Programme (UNDP) found that between 1990 and 2010, inequality increased by 9 percent in high-income countries and by 11 percent in developing countries (United Nations Development Programme [UNDP] 2013). Countries with the highest inequality are clustered in Central and South America and southern Africa. Countries moving up the economic ladder, such as China, have greater proportions of income and wealth in the high and very high brackets (Conference Board of Canada 2011). Lower inequality is clustered in Europe; however, inequality is increasing as wages stagnate. Inequality varies significantly by country, but overall the top 10 percent of workers now take home more than twice their share and about the same portion of income (25 percent) as the bottom 50 percent.

With respect to wage inequality, inequality within enterprises now explains more of the inequality than inequality between enterprises. Most workers, including 80 percent in Europe, make less than the average wage of the enterprise where they work, indicating that salaries at the top pull the average wage far above what the median worker makes. Globally, those at the top of the income hierarchies continued to experience the most growth and take home large shares of total country income. The 1 percent of companies with the highest wages in Europe paid their top 1 percent of workers take-home wages of about €844 an hour in comparison with an average of €7.1 for their bottom 1 percent in 2016 (International Labour Organization [ILO] 2016).

#### FIGURE 2.4 ■ Inequality and Development: The Kuznets Curve

The Kuznets curve illustrates the relationship between inequality and economic stages of development. Diagram is for illustration only.



Source: Center for Systemic Peace. 2022. "Global Trends in Armed Conflict 2020." <https://www.systemicpeace.org/conflictrends.html#fig3>.

## A CLOSER LOOK

### THE BIFURCATED SERVICE INDUSTRY



**PHOTO 2.1** The Server and the Served

The annual World Economic Forum meetings host a dinner for high-powered technology executives. Both they and the wait staff are parts of the “service economy”; however, their incomes and wealth place them worlds apart economically.

Robert Scoble/CC BY 2.0.

Growth itself does not correct inequality. Productivity drives growth, but productivity and worker compensation do not necessarily grow together. Labor productivity, in the United States for example, has grown at a faster rate than real wage growth (ILO 2020) (Figure 2.5). This results in increasing inequality. China’s rapid growth was accompanied by rapid increases in inequality. Inequality declined slightly as growth in China slowed, but more important in decreasing inequality was the increasing urbanization of the workforce that improved wages of the unskilled and migrant workers and increased the income stream migrant workers sent home into the rural areas (Li 2016).

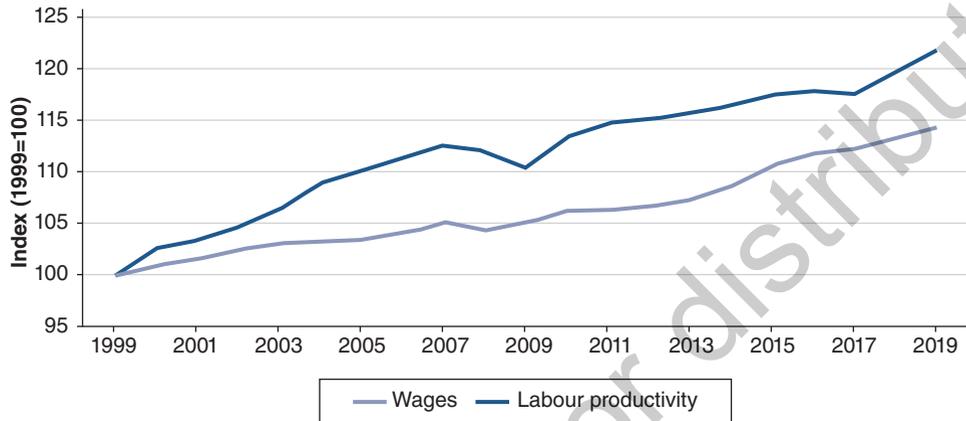
Neither did India’s rapid growth increase equality. Much of the growth was in services that offer limited employment opportunity, such as finance. The wage share of income dropped from 40 percent in 1990 to 34 percent by 2009; unearned income made the difference in growth. Furthermore, a large part of the Indian population still toils in low-productivity agriculture. During early periods of growth, public spending to improve the situation of the poor was the primary stimulus. Recent financial policy—deregulation and tax and credit policy to stimulate spending among the wealthy—exacerbated inequality (Ghosh 2016).

Within the rich societies, the main reason for the increases in inequality is the explosive growth in income at the top of the pyramid (the *super-manager*) and stagnation at lower levels. Corporate executive salaries are controlled by corporations’ boards of directors composed of super-managers from other corporations or nonprofit organizations. At the same time, many transfer programs to assist lower-level workers have been cut. In Europe, the COVID-19 crisis exacerbated wage inequality further as the share of 2020 wages for the bottom 50 percent of workers decreased and the ratio of earnings of the 90th percentile to the 10th increased from before to after the crisis (ILO 2021).

## A CLOSER LOOK

**FIGURE 2.5 ■ Wage Growth and Productivity Growth 1999–2019**

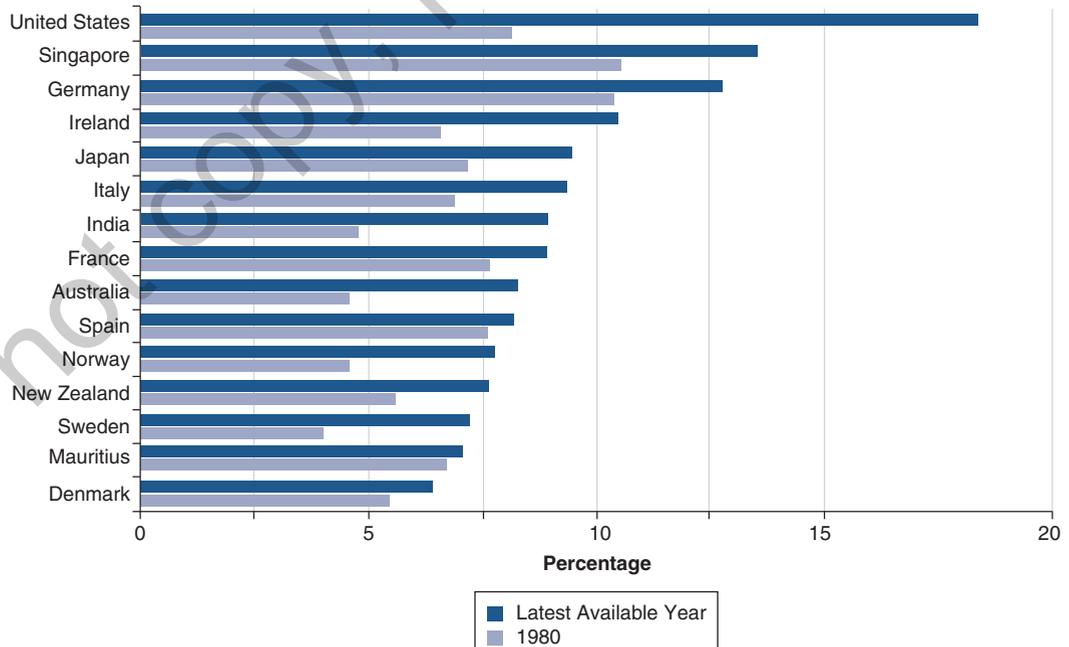
Worker wages do not keep up with the increase in worker productivity.



Source: International Labour Organization. 2020. Global Wage Report 2020-21: Wages and minimum wages in the time of COVID-19. [https://www.ilo.org/global/research/global-reports/global-wage-report/2020/WCMS\\_762302/lang--en/index.htm](https://www.ilo.org/global/research/global-reports/global-wage-report/2020/WCMS_762302/lang--en/index.htm).

**FIGURE 2.6 ■ Deepening Income Inequality, 1980–2014**

A sampling of Organisation for Economic Cooperation and Development (OECD) countries illustrates the extent of deepening income inequality as greater shares of income accrued to the richest 1 percent in each of these countries.



Source: Yates, Michael D. 2016. "Measuring Global Inequality." *Monthly Review: An Independent Socialist Magazine*, November. <https://monthlyreview.org/2016/11/01/measuring-global-inequality>. Reproduced with permission.

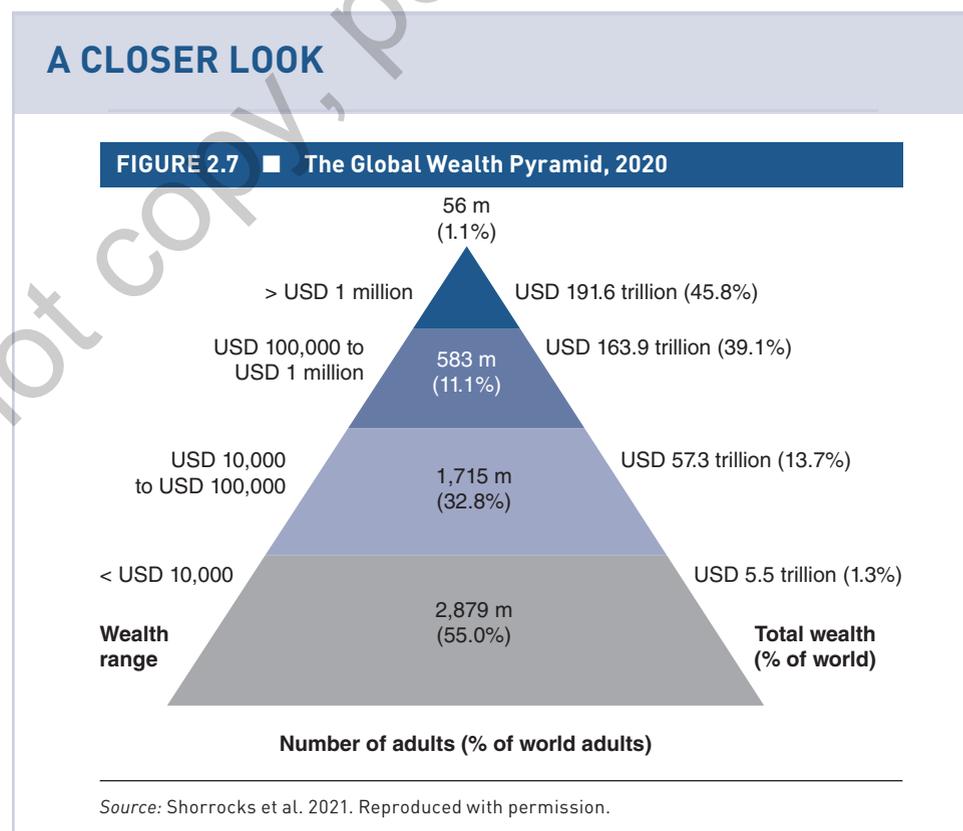
Government policies affect equality. The inequities are decidedly more extreme in the Anglo-Saxon countries (the United States, Great Britain, Canada, and Australia) than in Continental Europe (France, Germany, and Sweden) and Japan (see Figure 2.6). From 1960 to 1970, European countries were quite close in the share of income of the top percentile, ranging from about 6 percent to 9 percent, with the exception of Germany topping the list at 12 percent. The share going to the top decreased slightly from 1970 to 1980 but then rose dramatically in the Anglo-Saxon countries and rose less in other countries. The top 10 percent rose as well, but less in Continental Europe and barely at all in Southern and Northern Europe (Picketty 2014).

### Wealth Inequality Among Individuals: The Global Wealth Pyramid

The world, as a whole, is wealthy. Global household wealth totaled about US\$ 418 trillion in 2020 (Davies, Lluberas, and Shorrocks 2021). The global wealth pyramid depicts how wealth is distributed among individuals, providing insight into how much of the world's wealth is held by people at the bottom or top of the wealth pyramid regardless of their country's wealth (Figure 2.7).

At the base of the 2020 pyramid are about 2.9 billion adults, 55 percent of the adult population of the world, each of whose net worth is less than US\$ 10,000. Combining all their assets, they own only 1.3 percent of global wealth. Most of them live in developing societies, but about 30 percent of adults in developed societies are in this lowest category. Many may be there due to temporary setbacks such as prolonged unemployment, loss of a business, and so on; some may be elderly (Shorrocks et al. 2021).

The category covering US\$ 10,000 to 100,000 trebled in size during the 21st century, from 507 million people to 1.7 billion or about 33 percent of the global adult population. Together, they accrued 13.7 percent of global wealth. Prosperity in the middle class in developing societies, particularly China, created this expansion. Nevertheless, mean wealth in this category is only about US\$ 33,414, less than half of average wealth globally (Shorrocks et al. 2021).



Wealth concentrates in the top two tiers of the pyramid. At the *upper middle* tier, 11.1 percent of adults possessed between US\$ 100,000 to 1 million or 39.1 percent of wealth. The top 1.1 percent (56 million adults) controlled 45.8 percent of the global wealth, each having over US\$ 1 million. Both tiers expanded both in number of adults (although only the top expanded in terms of percentage of adults) and the percentages of wealth that they control. Although these classes are transnational and every region is represented, North America dominates the ranks of ultra-high net worth individuals, accounting for 49 percent of this class. As recently as 2000, nearly all this class came from North America, Europe, and the Asia-Pacific regions. In 2020, China (9 percent), Latin America, and India made gains. China dominates the middle two tiers, with 39 percent of the membership whereas other developing regions have much smaller representation—India only 9 percent, Latin America 6 percent and Africa 3 percent.

### Wealth Inequality within Countries

As within the globe, wealth inequality within countries increased from the 1970s onward. In capitalist systems, inequality is thought by some to be necessary for growth by creating incentives for people to work hard, study hard, or take entrepreneurial risk. When inequality inhibits the opportunities for success, it operates like any form of discrimination and is dysfunctional not only for individuals denied their full life chances but also for the society. Society is denied the contributions of many people (Milanovic 2011). For example, the economic pie in the United States has been growing, but not everyone has benefitted equally. In the United States, the top 1 percent had more net worth than the entire middle class—60 percent of the population; 27 percent (up from 17 percent in 1989) in comparison to the middle-class' share of 26 percent (down from 36.4 in 1989) (Federal Reserve 2022). Given this, it is easily understood why the middle class feels discouraged and disenfranchised.

The situation is even more dire for the lowest income category. Because it requires a surplus of income to create wealth and wealth is used to create more wealth, it is not surprising that wealth inequality is increasing in societies and that wealth is significantly more concentrated than income. The share of wealth of the entire bottom 20 percent of the population in the United States varied up and down between 2.2 percent to 4.2 percent from 1989 to 2022. Without access to surplus income, middle- and low-wage workers have little opportunity to accrue wealth. The level of wealth inequality within countries today is one cause of diminishing life chances for many people.

## A CLOSER LOOK

### WEALTH INEQUALITIES

How much wealth do you think should accrue to each wealth decile for everyone to have a fair chance at life? The top 5 percent? The top 1 percent? Compare your thoughts to the actual distribution of wealth within these regions. You can refer to the 2020–2021 Global Wealth Database to look at wealth distribution by country.

**TABLE 2.3 ■ Inequalities of Wealth within Regions**

| 2020 Decile   | 1    | 5   | 9    | Top 10% | Top 5% | 1%   |
|---------------|------|-----|------|---------|--------|------|
| Africa        | -0.8 | 1.1 | 10.5 | 78      | 67.4   | 43.4 |
| Asia-Pacific  | -0.2 | 0.6 | 10.3 | 82.3    | 67.8   | 38.2 |
| China         | 0.3  | 3.1 | 13.6 | 59.9    | 48.9   | 30.6 |
| Europe        | -0.8 | 1.1 | 16.1 | 66.9    | 52.7   | 29.4 |
| India         | -0.1 | 1.8 | 11.2 | 72.5    | 61.7   | 40.5 |
| Latin America | -0.9 | 1.4 | 11.6 | 75.5    | 63.3   | 39.2 |
| North America | -0.6 | 1.3 | 12   | 74.4    | 62.1   | 34.8 |
| World         | -0.5 | 0.7 | 9.9  | 81.8    | 70.1   | 44.9 |

Each decile represents 10% of the population. Comparing wealth of lowest decile to the 90th is one way of tracking inequality. The top 5% and 1% illustrates the concentration of wealth at the very top.

*Source:* Adapted from Davies, James, Rodrigo Lluberias, and Anthony Shorrocks. 2021. "Global Wealth Databook 2021." Credit Suisse Research Institute. Table 4.5

## Impacts of Global Poverty and Inequality

This discussion of income and wealth focuses attention on the prosperity of the world as a whole and the inequalities in income and wealth among regions, countries, and individuals.<sup>4</sup> Inequalities of income and wealth would not be important if they did not affect the quality of people's lives, their life chances, and well-being. But they do. The society into which a person is born and its level of wealth and inequality have a profound impact on the person's life.

Income sustains us day to day. Two people may have the same income but different levels of wealth. The one with more wealth has more opportunity. Wealth allows for investment, to use money to make money, or to move to a safer neighborhood or one with better schools or better recreational opportunities. A person with some wealth could invest in training for a new job or let their children develop their talents through music or art lessons. Even a little wealth can help a person recover more easily from unforeseen events. For example, when a car or hot water heater breaks down, a person with some wealth can have it repaired without going into debt.

For societies, it is the same. Wealth allows for investment in human capital such as education, health, nutrition, and welfare programs. It allows for investment in physical capital such as more productive machinery and infrastructure (e.g., roads). It allows a country to rebound more easily after unforeseen events such as natural disasters, extreme weather events, and economic shocks.

## Inequality and Life Chances

Increasing divergence in income and wealth results in increasing divergence in life chances:

- Despite the successes of the poverty reduction and related development efforts, many countries have failed to grow, much less thrive.
- Within regions, countries have different rates of success and have reached different levels of development.

- China, with about one third of the global population, has accounted for much of the global reduction in poverty, whereas other countries have had little to no reduction.
- Inequality, despite fluctuations, has increased since the 1970s.

How these trends developed, how they affect people's life chances, and how they can be combated are discussed in the remainder of the chapter.

The UNDP measures and tracks many indicators on which the quality of life and life chances depend. The foundation of life chances are good health, appropriate education, nutritious food, adequate shelter, and sufficient wealth and income (a decent standard of living). The conditions that support the foundation are security, equality, a healthy environment, and a vibrant social and political community. Together, these form the Human Development Index (HDI) (Figure 2.8).

Life expectancy at birth, expected years of schooling, mean years of schooling, and GNI per capita are the four indicators that form the basic HDI. These are among the most standardized and readily available statistics as well as reasonable indicators of general well-being. The HDI scores approximate how well a country fares in providing life chances. It is also a point of comparison among countries and a means of assessing countries' improvement.

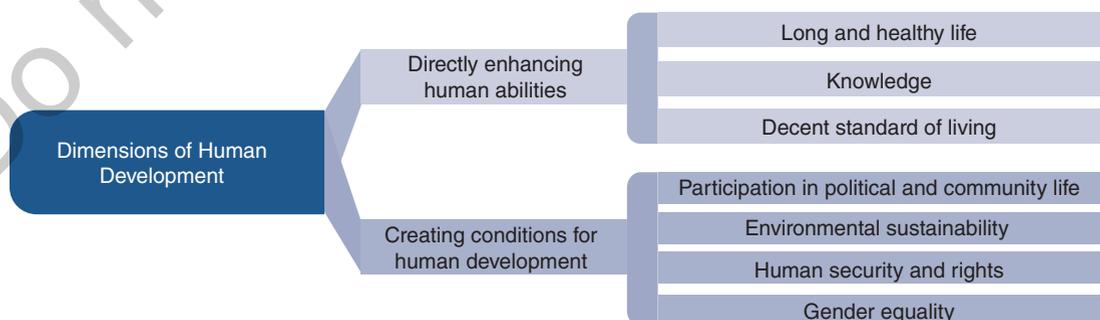
HDI varies widely by region. As would be expected, the two regions with the lowest income measures also have the lowest HDI. But given how far below the global average the South Asia region is in income, you might expect a much lower HDI. Similarly, the sub-Saharan Africa HDI is far below other scores, but its income is not as far below that of South Asia as one might expect. Income is not the sole determinant of HDI.

The relationship between income and human development is more complex than a straightforward correlation. Including income in the HDI exaggerates the relationship between them. Note these anomalies:

- In the case of the Arab states, given an income measure significantly higher than the global average, one might expect a much higher HDI, one at least above the global average. However, it is lower. Their score would be much lower if income were not a component.
- Table 2.4 shows regional HDI scores and GNI per capita. A more direct relationship between income and HDI score is evident here. Note, however, that the world HDI is lower than those for high-income countries, but the gross domestic product (GDP) per capita is somewhat higher.

**FIGURE 2.8** ■ Dimensions of the Human Development Index

The Human Development Index focuses on indicators related to health, education, and income—factors believed to be essential to achieving life chances.



Source: United Nations Development Programme. 2015. "What is Human Development?" <http://hdr.undp.org/en/content/what-human-development>, licensed under CC BY IGO 3.0. <https://creativecommons.org/licenses/by/3.0/igo/>

*What do you suspect accounts for these anomalies? Is this because of the level of inequality across countries of the world? How might the level of inequality within regions and within countries influence the HDI?*

Policy matters. There are many countries whose populations enjoy better life chances than people in countries with more income and wealth.

## A CLOSER LOOK

### HUMAN DEVELOPMENT MEASURES

GNI per capita and human development scores are related, but country income is not the only determinant. Good policy can increase a country's human development above that of richer countries. Bad policy can worsen it. HDI scores when adjusted for inequality drop significantly for many countries.

**TABLE 2.4 ■ Human Development Index and GNI Per Capita**

|                                       | HDI   | Inequality Adjusted HDI | Life Expectancy At birth | Expected Schooling Years | Mean School Years | GNI capita |
|---------------------------------------|-------|-------------------------|--------------------------|--------------------------|-------------------|------------|
| <b>Developing countries</b>           | 0.689 | 0.535                   | 71.3                     | 12.2                     | 7.5               | 10,583     |
| <b>Regions</b>                        |       |                         |                          |                          |                   |            |
| Arab States                           | 0.705 | 0.531                   | 72.1                     | 12.1                     | 7.3               | 14,869     |
| East Asia and the Pacific             | 0.747 | 0.621                   | 75.4                     | 13.6                     | 8.1               | 14,710     |
| Europe and Central Asia               | 0.791 | 0.697                   | 74.4                     | 14.7                     | 10.4              | 17,939     |
| Latin America and the Caribbean       | 0.766 | 0.596                   | 75.6                     | 14.6                     | 8.7               | 14,812     |
| South Asia                            | 0.641 | 0.475                   | 69.9                     | 11.7                     | 6.5               | 6,532      |
| Sub-Saharan Africa                    | 0.547 | 0.380                   | 61.5                     | 10.1                     | 5.8               | 3,686      |
|                                       |       |                         |                          |                          |                   |            |
| <b>Least developed countries</b>      | 0.538 | 0.384                   | 65.3                     | 9.9                      | 4.9               | 2,935      |
| <b>Small island developing states</b> | 0.728 | 0.549                   | 72.0                     | 12.3                     | 8.7               | 16,825     |
|                                       |       |                         |                          |                          |                   |            |
| <b>OECD</b>                           | 0.900 | 0.791                   | 80.4                     | 16.3                     | 12.0              | 44,967     |
|                                       |       |                         |                          |                          |                   |            |
| <b>World</b>                          | 0.737 | 0.587                   | 72.8                     | 12.7                     | 8.5               | 16,734     |

Note: Scores on the HDI range from 0 to 1. The higher the number, the better the human development.

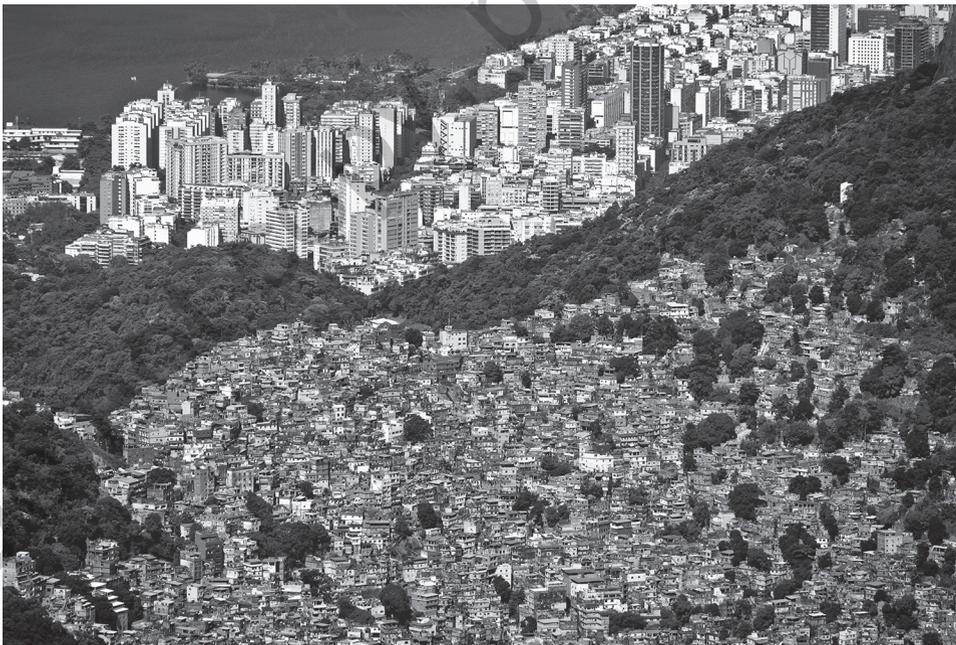
Source: Adapted from United Nations Development Programme. 2020. "Human Development Report 2020: The Next Frontier: Human Development and the Anthropocene." Statistical Annex Table 1. <https://hdr.undp.org/content/human-development-report-2020>. BY IGO 3.0 <https://creativecommons.org/licenses/by/3.0/igo/>

The HDI and economic status of a country may be more significant in a person's life chances than a person's own talent and ambition. Living in a low-HDI country, a person does not have the same opportunity for an education or good health as a person in a higher HDI country. In a poor country, regardless of how hard they work and how smart they are, people do not have access to the same job opportunities or financial and physical infrastructure to get ahead as people in a richer country. Securing better life chances drives migration to higher HDI and higher income countries.

Societies with low HDI, particularly those with low income, experience the most social problems, including environmental destruction, violent conflict, and discrimination. However, not everyone in those societies suffers equally, nor does everyone in wealthy societies benefit equally from the opportunities wealthy societies afford.

The effects of income inequality within countries, even wealthy ones, are destructive. Income inequality stifles intergenerational upward mobility, leading to feelings of hopelessness and disaffection from the society. It stifles economic growth of the society as a whole, breeds social resentment, and can generate political instability. Oxfam International (2014), an international nongovernmental organization, succinctly stated the dangers of extreme inequality:

Extreme economic inequality is damaging and worrying for many reasons: it is morally questionable; it can have negative impacts on economic growth and poverty reduction; and it can multiply social problems. It compounds other inequalities, such as those between women and men. In many countries, extreme economic inequality is worrying because of the pernicious impact that wealth concentrations can have on equal political representation. When wealth captures government policymaking, the rules bend to favor the rich, often to the detriment of everyone else. The consequences include the erosion of democratic governance, the pulling apart of social cohesion, and the vanishing of equal opportunities for all.



**PHOTO 2.2** Rich and Poor Are Side-by-Side in Sao Paulo

Paraisópolis, the largest slum in Sao Paulo, borders Morumbí one of its richest neighborhoods. Despite their physical proximity, the life chances each offers are worlds apart.

dabidy/iStockPhoto

Using three key indicators, the HDI computes an inequality *adjusted* index. The adjusted index accounts for the loss to a country or region in human development because of inequality. The more inequality in the region, the greater the difference between scores (Table 2.4). Where there is inequality, portions of the population are not given the opportunity to develop their potential and the society does not develop human capital.

How the income and wealth of a country are used along with the distribution of income and wealth influences life chances and well-being. Countries that direct a greater portion toward public goods such as education, health, and building good governance and infrastructure will have better outcomes regarding people's life chances than societies that invest less. When more income and wealth is directed to private consumption, it benefits only those individuals. When invested in public goods, the entire population benefits.

Even among rich societies, societies that are more unequal and spend less on public goods experience more social problems and quality of life issues than more equal societies. They may suffer more problems than some societies that are less wealthy but more equal. They tend to have lower overall educational attainment, poorer health, and more violent crime than they

**TABLE 2.5 ■ Effect of COVID on People in Poverty**

COVID has added millions to poverty in every region of the globe. As with other measures of human development, years of progress were lost.

|                            | Millions of New Poor |        | Years of Progress Lost |        |
|----------------------------|----------------------|--------|------------------------|--------|
|                            | \$1.90               | \$5.50 | \$1.90                 | \$5.50 |
| Regions                    |                      |        |                        |        |
| East Asia & Pacific        | 7                    | 37     | 1–2                    | 1–2    |
| Europe & Central Asia      | 1                    | 4      | 1                      | 2–3    |
| Latin America & Caribbean  | 2                    | 12     | 6–7                    | 5–6    |
| Middle East & North Africa | 8                    | 14     | *                      | *      |
| Rest of the world          | 0                    | 1      | +                      | 3–4    |
| South Asia                 | 50                   | 82     | -                      | -      |
| Sub-Saharan Africa         | 29                   | 15     | 2–3                    | 6–7    |
| Income Groups              |                      |        |                        |        |
| Low Income                 | 22                   | 9      | 8–9                    | 2–3    |
| Lower-Middle Income        | 69                   | 119    | 4–5                    | 2–3    |
| Upper-Middle Income        | 6                    | 34     | 5–6                    | 3–4    |
| High Income Countries      | 0                    | 1      | 2–3                    | 2–3    |
| Global                     | 97                   | 163    | 3–4                    | 2–3    |

Source: World Bank. 2021.

would have if they were more equal. In more equal societies and societies that use more wealth for the common good, the poor may have life chances equal to those in somewhat wealthier societies.

In societies that limit people's life chances through inequality, everyone suffers, not only those at the bottom. Research by Richard Wilkinson and Kate Pickett illustrates each of these points convincingly. The authors started with the simple question of why, "at the pinnacle of human material and technical achievement, we find ourselves anxiety-ridden, prone to depression, worried about how others see us, unsure of our friendships, driven to consume and with little or no community life" (Wilkinson and Pickett 2009). What they found might surprise some people.

The severity of social problems and income are related when considering all societies—poorer societies have more problems. But among wealthy countries, there is no relationship between income and severity of problems. The wealthier societies are no better off, neither are the poorer societies suffering more. They are equal in their problems. However, there is a significant relationship between inequality and social problems. Among rich societies, the more unequal societies experience more severe social problems. Using data compiled by international organizations and national governments, they found that this relationship holds for all the problems Wilkinson and Pickett (2009) tested, from measures of child welfare to violent crime.<sup>5</sup>

Among rich societies, more equal societies are healthier. More equal societies have less mental illness, longer life expectancy, lower infant mortality and obesity, and fewer teenage births and homicides. They have fewer people in prison, more social mobility, and higher levels of trust. In every measure in the United Nations International Children's Emergency Fund (UNICEF) index of child well-being, children in more unequal societies fare less well regardless of income level. States within the United States reflect the same relationships; states that are more unequal have worse outcomes than states of similar wealth (Wilkinson and Pickett 2009).

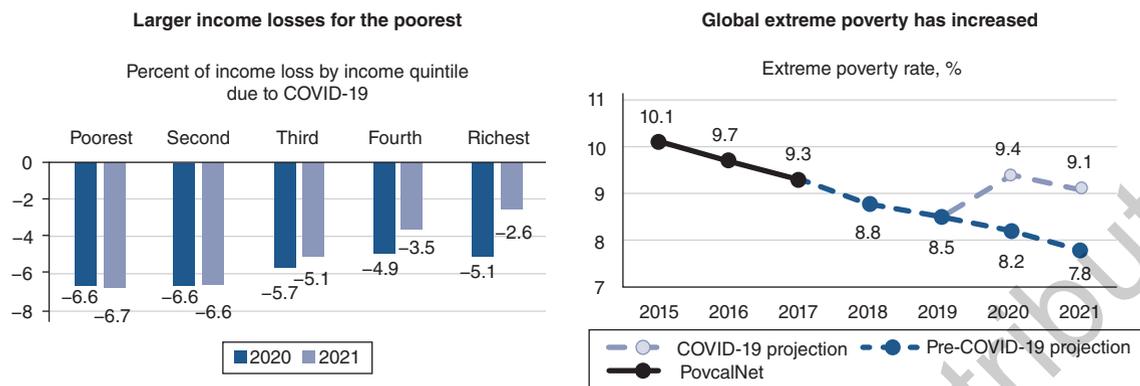
The most disadvantaged are most vulnerable and suffer the most, but inequality reaps destruction through all income levels of a society. When comparing the health of people in the same income levels across societies, people in more equal societies fare better than people of the same income in more unequal societies. This relationship holds true even for the poorest and wealthiest members of a society (Wilkinson and Pickett 2009).

Inequality, according to Wilkinson and Pickett (2009), is structural violence. It breeds family stress and breakdown. It entrenches an *us against them* mentality and discourages spending on the common goods such as education. It encourages us to compare among ourselves. These *psychosocial* factors—the fear of judgment, status competition, and status insecurity—create chronic stress. The authors cited a review of 208 studies showing that threats to social status, confidence in one's own competence, or belonging to a group perceived as inferior affects performance. In an experiment in which boys were asked to complete mazes, children from lower castes performed slightly better than those from upper castes. When asked to announce their names, as well as their fathers' and grandfathers' names, villages, and castes before completing the mazes, the performance of the lower caste boys dropped significantly.

Reducing the inequalities among us can improve the quality of life for us all.

### Quality of Life Along Levels of Development

Statistics on poverty, inequality, and human development do not mean much without some basic understanding of people's lives at different levels of socioeconomic status.

**FIGURE 2.9** ■ Economic Losses Due to COVID

Source: World Bank. 2021. "Poverty, Median Incomes, and Inequality in 2021: A Diverging Recovery." <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/936001635880885713/poverty-median-incomes-and-inequality-in-2021-a-diverging-recovery>.

### The Bottom of the Pyramid

Franklin Roosevelt (1932) used the term “the bottom of the pyramid” to describe “the forgotten, the unorganized, but the indispensable units of economic power.” He was referring to the bankrupt farmers and workers who were at the bottom of the pyramid in the United States. He stressed their importance in rebuilding the U.S. economy from the bottom up. Many politicians and financial and industrial leaders of the period proposed *top-down* plans to revitalize the nation. They wanted to give money to big banks, railroads, and corporations. Roosevelt wanted to give at least as much help to the *little fellow* and to the little banks and loan companies that would help those at the bottom build themselves up again. There is still a bottom of the pyramid in the United States inextricably connected to the global bottom of the pyramid. People in the global bottom live in every country. Like the bottom of the pyramid of which Roosevelt spoke, it remains an indispensable unit of economic power both nationally and globally. Although myths about the poor being lazy abound, the poor are the hardest workers in the world and the foundation of the global economy. While progress had been made in reducing poverty, COVID decreased incomes in every income class, decreasing global median income. The most severe losses were in the poorest classes, pushing an additional 70 million people into extreme poverty (Figure 2.9).

Who are the people at the bottom of the pyramid? What are their lives like?

### Slavery: It Still Exists

No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

—UN Declaration of Human Rights, Article 4

At the base of the pyramid are enslaved persons. Slavery is illegal in every country in the world but still exists. Sustainable Development Goals Target 8.7 calls for “immediate and

effective measures to eradicate forced labour, end modern slavery and human trafficking, secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms” (United Nations, 2022).

There were 45.8 million enslaved people spread over 167 countries in 2016. Most of them are in India, China, Pakistan, Bangladesh, and Uzbekistan (Walk Free Foundation 2016). However, they can be found in every country. Slavery goes by a variety of different names, including forced labor, involuntary servitude, bonded labor, debt bondage, child sex trafficking, child soldiers, human trafficking, and traditional slavery. Regardless of terminology, people held in compelled service are held in slavery.<sup>6</sup>

## CONSIDER THIS

### WHEN A SOCIETY ACCEPTS SLAVERY

*“Chains are for the slave who has just become a slave . . . but the multi-generation slave, the slave descending from many generations, he is a slave even in his own head. And he is totally submissive. He is ready to sacrifice himself, even, for his master.”*

—Boubacar Messaoud, son of slaves

Can slavery be so ingrained in a national culture that neither the enslavers nor the enslaved recognize that anything is wrong? Where slavery is inherited, generation after generation, it seems the natural order. It has the quality of destiny. Abdel Nasser Ould Ethmane, now an abolitionist in his homeland Mauritania, was allowed to choose his own birthday gift when he was 7 years old. Rather than a toy or candy, he chose Yebawa Ould Keihel, a dark-skinned boy who amused him. Yebawa tended the family’s flocks in the hot sun, stood in the cold rain to support a tent to keep the family dry. Neither Abdel nor Yebawa questioned this. When Abdel went away to school, he encountered books on the French Revolution, human rights, and the abolition of slavery in other countries. At first, he thought the books were filled with lies. By age 16, he was convinced slavery was a grave injustice. He recognized that everyone deserved all the rights he enjoyed. He freed people he held in slavery, but they did not know what freedom was, nor did they want to be free.

Mauritania did not abolish slavery until 1981 and did not make owning a person a crime until 2007. Still, there are hundreds of thousands enslaved. It is one of the poorest countries in the world, with 44 percent of its population living on less than \$2 a day. Those who are enslaved have little hope for a life of plenty in or out of slavery. Many *masters* prevent them from leaving. Despite physical and sexual abuse, some do not understand that their enslavement is not their duty or destiny. Educating them to understand freedom and convincing them to want to be free are the first hurdles that SOS Slaves, founded by Abdel and Boubacar, and other abolitionist groups must overcome.

—as reported by John D. Sutter (2012), CNN News

Slavery isn’t just in Mauritania. It hides all over the world, in the supply chains of our clothing and electronic devices, in the kitchens and nurseries of the wealthy, in agriculture and mines, in virtually every industry in every country.

### Working Hard for Less than US\$ 3 a Day

Slightly higher in the socioeconomic hierarchy are people who earn less than \$1.90 a day, considered the extreme poverty class. They lack the basic necessities—food, clean water, and shelter.

They may be among the *modern slaves* or live in a barter economy. They may be displaced from their homes by war, natural disasters, or civil strife. There are roughly 1 billion people living at this level.

A step above, those who earn up to \$3 a day, are usually poorly educated and unskilled. They work as day laborers, migrant farmhands, helpers and assistants in petty trades, or temporary workers. They may have been displaced from their homes by conflict, natural disasters, persecution, famine, or other hardships. Their paychecks are unsteady. They might be able to afford only one meal a day, usually of substandard nutritional value. They are likely to lack improved sanitation, health care, and education. In early 2000s, there were about 1.6 billion people living at this level—a subsistence level (Rangan, Chu, and Petkoski 2011). COVID has swelled these ranks.

Work at these levels is insecure. When we talk about these extremely low daily wages it does not mean that a worker is earning that every day. For example, during harvest season, workers may earn more than their daily average. In the off season, they might not earn anything at all.

Most of the very poor cobble together an income from several jobs doing different things—whatever work they can get. They lack the opportunity for a full-time job even at that low wage.

For example, the rural poor may have a small plot of land to farm but not enough to make a living or feed their families. In addition, they may work as day laborers or migrate for temporary work. Rickshaw drivers, for example, usually work only 4 days a week because of the hardship of the job. However, bad weather, police harassment, scarcity of riders, whether or not a rickshaw is available, and bad luck may mean that even a 4-day week is not possible. They too probably work several jobs. In Guntur, India, a typical scenario for very poor women is to start off their day selling rice and bean breakfast pancakes. After that, they collect trash, make and sell pickles, maybe gather and sell fuelwood, fruits, and vegetables, and possibly work as laborers. A study of working poor by Massachusetts Institute of Technology economists found that the median family in villages in West Bengal, India, had three working members with seven different occupations among them (Radelet 2015).

Although there are noncash assistance programs in wealthy countries such as the United States, there are still people working at an average of US\$ 2 a day or less. They share similar hardships. In their decades-long studies of poverty in the United States, Kathryn Edin and H. Luke Shaefer studied the plight of very low-income, particularly \$2-a-day, workers. They found that the number of households living on \$2 a day had roughly doubled from 1995, the latest era of welfare reform. In 2011, there were roughly 1.5 million households, about 4 percent of all households, living on \$2 a day per person or less. They spanned family types, with one third being two-parent families. They spanned the races, with nearly one half being White, although the rate of growth among Hispanics and African Americans was higher than that among Whites (Edin and Shaefer 2015).

Their work is irregular and unpredictable. A large pool of low-wage workers, many of whom were pushed into the workforce by lifetime limits on cash assistance, makes it easy for employers to demand that workers be available on call 24-7. There is no vacation time, sick leave, or health insurance. Even with food stamps and housing allowances, children go without regular meals and health care and sleep in substandard, overcrowded apartments. In at least one family living in the Mississippi Delta, the children reported that they often wished they were dead rather than be so pained with hunger (Edin and Shaefer 2015).

Just above them on the pyramid are the \$3-to-\$5-a-day workers. This may not sound like a big difference, but even this little bit more means a more secure life. People at this level may have a few years of secondary education. They may work in such jobs as construction or petty trades,

as drivers, or as staff in public or commercial establishments. They may own bicycles, televisions, and cell phones. There are approximately 1.4 billion people living at this level (Rangan et al. 2011). Their health is generally better at this level, so fewer days of work are missed. Their work not only pays more but also is more regular and secure.

The most success in the global struggle against poverty has been at these lowest levels, lifting people from extreme poverty to low income. An increase from less than US\$ 1.25 to just \$2 a day makes a significant difference in people's lives. From \$3 to \$5 a day makes an even greater difference. These small increases may mean more food security or sending their children to school. It may mean being able to purchase tools to begin a small business. But even \$5 a day is less than \$2,000 a year and still poverty wages on the global pyramid. Many people in these lowest categories are among forced labor such as the migrant construction workers in the United Arab Emirates whose passports are taken away from them when they arrive. They work for about US\$ 167 a month (Walk Free Foundation 2016).

## ORIGINS OF CONTEMPORARY INEQUALITY AMONG NATIONS

Prior to the Industrial Revolution, all societies were poor, and aside from a small elite class or caste, there was not a great deal of difference in how people lived from society to society or within societies. Nearly everyone lived an agricultural lifestyle. Nearly everyone was poor. A rough estimate is that in 1820, 94 percent of the global population lived on under \$2 a day (in contemporary dollars) and 84 percent on under \$1 (Radelet 2015).

### Development and Economic Transitions

Traditionally, when social scientists refer to a society as developing, they refer to the process of economic transition, which leads to growth. In general terms, there are three sectors of economic activity: primary (agricultural), secondary (manufacturing), and tertiary (service) industries. The primary sector is that portion of the economy or labor force that involves securing raw materials and resources directly from the land. This can be thought of as the first step in a commodity or production chain. Agriculture, mining, fishing, and lumberjacking all secure raw materials from the earth. The secondary sector is manufacturing. This sector turns the primary resource into a product or goods. Manufacturing adds value to the resource. There are levels of manufacturing. Some are basic such as filleting and freezing fish and spinning cotton to thread. Examples of much higher levels of manufacturing are the chemical industry and new materials manufacturing. Higher levels of manufacturing add considerably more value than lower levels. Tertiary industry is the service industry. It is bifurcated with a low-level sector of low-skilled occupations that require little education and a highly educated, highly skilled workforce. The lower skilled sector performs many of the tasks associated with domestic work—from janitors, to launderers, to fast-food preparation, to child and home health care. The higher-level service sector is in finance, marketing, upper management, and high-tech positions. Professionals—from technicians, to doctors, to teachers, to lawyers—are in this category.

Advances in technology propel societies along the developmental path. Technology releases people from lower-level work, replacing them with increasingly efficient machines and robotics. In agriculture, for example, a few large expensive pieces of machinery can replace scores of workers. With further advances in technology, fewer workers are needed in manufacturing. Factories that employed thousands can get by with hundreds. The labor force moves into service. The occupational structure shifts from primary to manufacturing and then to service industries. The

transitions are not easy, and workers are displaced.<sup>7</sup> As societies transition at different rates, they diverge from one another in the value they produce and subsequently their income and wealth.

The Industrial Revolution was the first opportunity for societies to significantly increase their income and accumulate wealth relative to other societies. Before the Industrial Revolution, the richest societies were only about three times richer than the poorest. In 1820, nearly everyone lived in absolute poverty. The first divergence among countries occurred with the Industrial Revolution (Figure 2.10). At this time, most of the world, some 75 percent, was still living under colonial rule and did not have the opportunity to develop independently. A small group of 17<sup>8</sup> countries industrialized and grew relatively rapidly and at similar rates during this early period of industrialization.

As manufacturing moved from the most advanced societies, it provided a second opportunity for development. Manufacturing began moving to less developed nations in the late nineteenth century. Latin America was free from colonization, but Africa and much of Asia were not. The 1950s were a take-off period for many societies from South America to East Asia. Among developing societies, a surge of growth from 1960 to 1990 produced a second divergence. Of the 108 developing societies, 11 experienced explosive growth, averaging more than 4.2 percent a year.

Other societies, about 40, grew at less than 1 percent, 28 grew at less than 0.5 percent, and 16 experienced negative growth. Some, such as Argentina, started out among the wealthier societies but went from wealth to poverty. Others, such as India, were already poor and grew so slowly that they grew increasingly poor in relation to global per capita incomes. The gap in per capita income between the richest and poorest grew 10-fold from 1870 to 1990, from about \$1,286 to \$12,662 (Pritchett 1997). In sub-Saharan Africa, the GDP per capita fell from one third of the richest nations in 1820 to one twentieth by the 2000s (Sindzingre 2005).

Because of differing rates of development, some societies remain heavily invested in agriculture and other primary industries regarding both the proportion of their GDP that comes from the agricultural sector and the proportion of their labor force engaged in primary industry and agricultural work. Manufacturing jobs typically pay more than primary industry jobs<sup>9</sup> and initiate the development of a middle class. As societies develop newer technologies, fewer workers are needed in lower-level manufacturing. Ideally, they move to higher level manufacturing and services.

The proportion of GDP derived from each economic sector also indicates the level of development. A greater proportion of GDP is generated by *industry* and *manufacturing* in more developed countries (Table 2.6). Worker per worker, workers in higher level economic sectors (except the low-level services) produce more value as measured by their contribution to GDP.

There is a general argument that people are poor because they must not work or work hard or because they do not have entrepreneurial talent or desires. Each of these arguments is false. As is evident in examining the *bottom of the pyramid*, people in countries with low levels of development work hard—much harder, one might argue, than people in wealthy societies. But they work for less money. Their work, whether in agriculture, low-level manufacturing, forestry, or mining, is necessary for global growth but does not bear a living wage on the global market. The working poor comprised about 6.7 percent of the global labor market in 2019. The COVID-19 pandemic increased that for the first time in two decades to 7.2 percent; forcing an additional 8 million workers into poverty (UN 2022). This makes it difficult, if not impossible, for individuals or the countries in which they live to provide adequately for a life of survival, let alone comfort. At the same time, global trade allows many goods made by these workers or made from materials collected by these workers, from T-shirts to toilet paper, to be purchased by consumers in wealthy countries for prices below their cost just 40 years ago.

Wages are the primary source of income in developed and developing societies alike. The opportunities that people have to earn an income are dependent on the jobs that are available where they live. What people are paid for their work varies by the distribution of jobs in the occupational structure of the society.

## A CLOSER LOOK

**TABLE 2.6 ■ The Relationship between the Labor Force and GDP**

Structure of the Economy and Value Added by Economic Sector by Region and Income Level

|                       | GDP        |           | AGRICULTURE |      | INDUSTRY |      | MANUFACTURING |      | SERVICES |      |
|-----------------------|------------|-----------|-------------|------|----------|------|---------------|------|----------|------|
|                       | \$Billions |           | %GDP        |      | %GDP     |      | %GDP          |      | %GDP     |      |
|                       | 2010       | 2020      | 2010        | 2020 | 2010     | 2020 | 2010          |      |          |      |
| World                 | 66,596.10  | 84,906.80 | 3.9         | 4.4  | 27.6     | 26.3 | 15.9          | 16   | 62.8     | 65.7 |
| East Asia & Pacific   | 17,063.30  | 27,118.70 | 5.5         | 5.9  | 35.9     | 34.1 | 24.2          | 22.8 | 57       | 58.2 |
| Europe & Central Asia | 21,025.80  | 22,133.90 | 2.1         | 2.1  | 23.6     | 22.9 | 13.7          | 13.9 | 64       | 65.2 |
| LAC                   | 5,347.10   | 4,743.20  | 4.7         | 6.5  | 29.1     | 28.3 | 14.3          | 15.7 | 55.7     | 67.7 |
| ME and NA             | 2,973.10   | 3,106.90  | 5.9         | 5.4  | 46.3     | 34.7 | 11.7          | 12.2 | 47       | 56.9 |
| North America         | 16,672.90  | 22,546.00 | 1.1         | 1.1  | 20       | 19   | 11.7          | 11.1 | 75.3     | 79.7 |
| South Asia            | 2,060.80   | 3,482.50  | 17.5        | 17.7 | 29.1     | 24.8 | 16.5          | 14.1 | 46.5     | 49.6 |
| Sub-Saharan Africa    | 1,451.80   | 1,706.10  | 15.9        | 18.5 | 27.1     | 26.5 | 9.8           | 11.2 | 50.9     | 48.9 |
| Low income            | 613.2      | 481       | 23.6        | 26.8 | 28.3     | 25.9 | 4.8           | 10.7 | 42.9     | 39.1 |
| Lower middle income   | 5,246.90   | 7,585.50  | 15.3        | 16.1 | 33       | 27.8 | 16.4          | 14.9 | 46.8     | 48.1 |
| Upper middle income   | 14,604.00  | 22,848.30 | 6.9         | 7    | 36.7     | 34.1 | 21.7          | 22.1 | 50.5     | 55.9 |
| High income           | 45,752.20  | 53,699.80 | 1.3         | 1.3  | 23.9     | 22.4 | 14.1          | 13.4 | 69       | 71   |

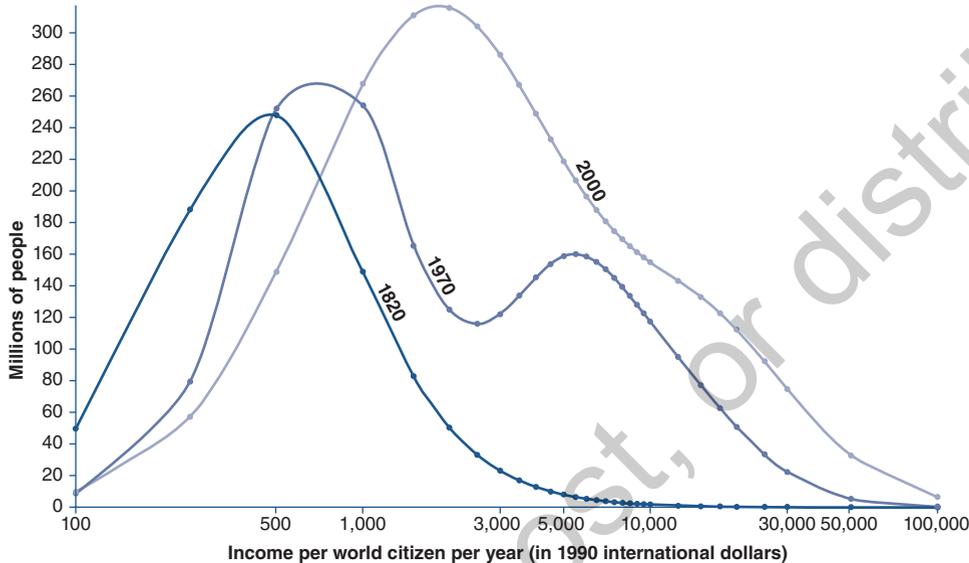
Source: Adapted from World Bank. 2022e. "World Development Indicators Table: 4.2 Structure of Value Added." <http://wdi.worldbank.org/table/4.2#>.

## A CLOSER LOOK

### WAVES OF DIVERGENCE IN THE GLOBAL ECONOMY

**FIGURE 2.10** ■ Waves of Divergence

The x-axis is marked with the peak values for the corresponding lines.



Source: Our World in Data by Max Roser. <https://www.maxrosier.com/rosier/graphs/WorldIncomeDistribution1820to2000/World-IncomeDistribution1820to2000.html> licensed under CC BY-SA 4.0 <https://creativecommons.org/licenses/by-sa/4.0/>

In 1820, all societies were very poor. There were few wealthy individuals. By the 1970s, there were two distinct categories of nations. The largest category containing the bulk of the world's population did not develop and was not much wealthier in 1970 than in 1820. As development spread to more parts of the world, incomes in those regions increased. But most of the world is still relatively poor.

### Factors Influencing Varying Levels of Development

Why some societies broke from the historical record of slow growth, developed quickly, and became wealthy while others remained poor is a central question of the social sciences, including not just economics but also political science, geography, anthropology, and sociology.

#### Economic Growth

With the exception of the Asian Tigers—Hong Kong, South Korea, Taiwan, and Singapore—that successfully developed from 1960 to the 1990s, the developing world lagged behind the developed world for most of the post-World War II period. It was not until 2000 to 2009 that growth accelerated among other developing countries. When it did, it accelerated

dramatically—7.6 percent, 4.5 percent faster than the developed world (Figures 2.11 and 2.12). If those rates had held steady, per capita incomes in the developing world stood ready to converge with those in the developed world in just 30 years. They seemed to be doing everything right—improvements in education, clamping down on corruption, opening markets to global trade, and building infrastructure.

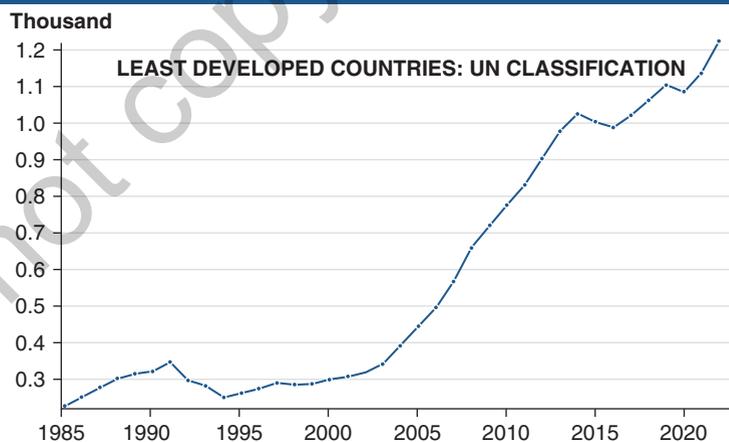
Growth was not evenly spread. East Asia, Eastern Europe, and the BRICS (the largest middle income countries—Brazil, Russia, India, China, and South Africa) led in growth, with China accounting for the greatest share. Services is the largest value-added sector in each of the BRICS, propelling their growth. Nevertheless, even the least developed societies, some 48 countries (34 in Africa, 13 in the Asia–Pacific region, and Haiti in the Caribbean), experienced rapid growth rates in that decade, peaking at 9.53 percent in 2007. Since then, the growth rate has slowed to 1.9 percent (average annual growth from 2010–2020) in the least developed countries and 4.7 percent for upper-middle countries (with excepting Brazil, which averaged only 0.1 percent and Russia at 1.0 percent for that decade; World Bank 2022d: Table 4.1)

A plethora of factors, both internal and external to societies, accelerate or inhibit economic growth, explaining why some societies developed quickly and others did not or why some slow down while others continue to grow. Competing theories—from geography, to institutions, to culture—all need to be considered because each is convincing in the evidence it brings to the debate and each may have an important role, whether in shaping historical development or explaining contemporary development and underdevelopment.

### Extractive Institutions and Inequality

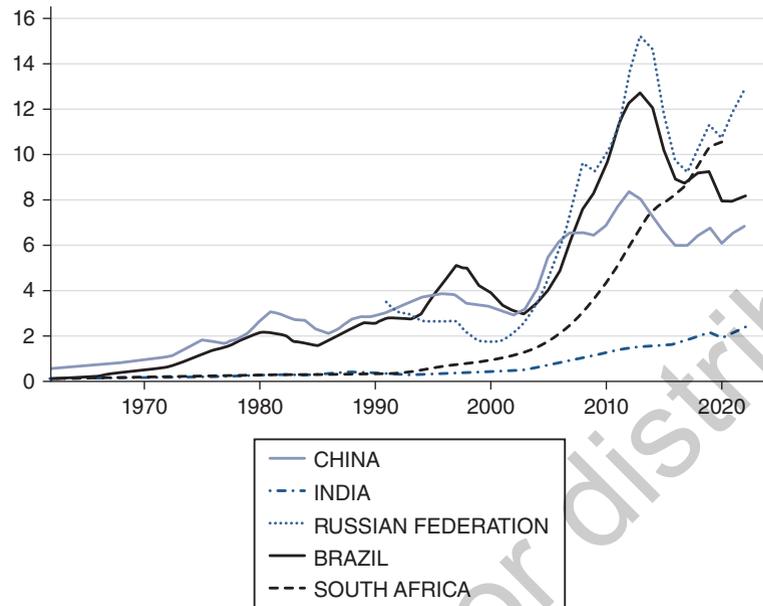
Institutions matter to development. Good institutions can influence every sphere of life, providing life chances and ensuring the rule of law. Institutions account for at least part of the explanation of modern inequality (Acemoglu and Wolitzky 2011; Acemoglu, Johnson, and Robinson 2001, 2002).

**FIGURE 2.11** ■ GDP per Capita in the Least Developed Countries



Source: Created from GNI per capita, Atlas method (current US\$) by World Bank. <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=XL> licensed under CC-BY 4.0 <https://creativecommons.org/licenses/by/4.0/> (No longer available online.)

FIGURE 2.12 ■ GDP Per Capita in the BRICS



Source: Created from GNI per capita, Atlas method (current US\$) by World Bank.

Former colonies and dependencies vary in their rates of growth post-independence. On every colonized continent, there are a variety of growth rates resulting from the different opportunities for wealth in each (Paap, Franses, and van Dijk 2005).

Europeans developed two distinct institutional systems in their colonies based on the simplest ways to amass wealth. Some territories were densely populated when Europeans arrived and had diseases to which Europeans were highly susceptible. These factors limited the colonizers' opportunities to settle there, but population density offered an economic advantage—the opportunity for forced labor, whether on plantations or in mines. In other territories, where slavery had been practiced by Indigenous groups, extractive political systems were already in place and people paid duty to powerful chieftains—much as in feudal Europe. In such cases, Europeans merely took control. Authoritarian and absolutist political systems developed that benefitted the few at the expense of the majority (Acemoglu et al. 2001).

*Extractive institutions* neither supported long-term development nor disappeared with the end of colonization. Lange (2004) discovered a long-term legacy of “indirect rule” in which the British colonial powers worked through intermediaries, such as chieftains, to exert control and administer the colonies. Chiefs were given power over all aspects of government. They existed as clients of the British, their patrons. Chiefs extracted wealth from the population for themselves and the British. The colonies were in effect clusters of kingdoms linked only weakly through a common colonizer. Looking at data for 33 British colonies, Lange found a robust negative association between indirect rule and “political stability, bureaucratic efficiency, lack of state regulatory burden, rule of law, lack of government corruption, and democratization” (p. 906). Indirect rule resulted in ineffective government and despotic decentralization, not bureaucratic rules. In contrast to extractive institutions in Africa and much of the Americas, North America developed inclusive, direct rule institutions. North America was lightly populated with a hospitable

environment. Europeans settled there instituting direct rule characterized by formal rules, a centralized administrative structure, and a formal chain of command (Lange 2004). A cluster of social, political, and economic institutions—the institutions of private property—ensured a broad cross section of a society the opportunity to develop (Acemoglu et al. 2002). Political institutions, such as the town hall meetings of New England, were inclusive. Colonizers of North America, whether of lower or higher social status, tried to ensure their rights (finally by rebellion).

The type of institutions a society developed made the biggest difference with respect to industrialization. Where rights were widely shared, there was incentive to take advantage of new technologies. The institutions that encouraged investment and protected private property facilitated development in the Americas, Australia, and New Zealand. Where rights were secure for only a small elite, neither the elite nor nonprivileged classes were likely to take advantage of the new opportunities. The elite took advantage of the new technologies only if they themselves had the entrepreneurial skills and ideas necessary for technological development. People other than the elite would not be motivated because their property was not protected and their successes could be snatched away arbitrarily. In any case, elite classes would be likely to block efforts of others because they themselves would not benefit and their position could be challenged by new wealth. Successful industrialization requires a large number of people willing to make risks on investments. The United States, Australia, Canada, Japan, and Hong Kong were industrialized through the activity of their large middle classes (Acemoglu et al. 2002). Direct rule made it possible, whereas indirect rule subject to clientelism and the arbitrary decisions of intermediaries thwarted development.

To investigate the long-term legacy of colonialism, Nunn (2007) tested two variables: rates extraction and the resources devoted to securing property rights. The extractive institutions—land appropriation, tax systems, and forced labor—had a long-term impact on development. Highly extractive industries, the slave trade to start, reduced previously productive societies to low production. With high extraction, there is not motivation on the part of the populace to produce, and many people are motivated to engage in low-productive activities (securing the output of the producers through robbery, extortion, kidnapping, conflict, etc.), which discourage development. This low-production combination is stable and related to the decreasing development that many societies experienced post-independence.

In the case of African colonies, many were in a high-production equilibrium before contact with Europeans. Where there was high foreign extraction and unproductive activity, first through the slave trade and then through colonial rule, low-production equilibrium developed. In the case of Mozambique, as the slave trade increased, rice and wheat production fell. (It is now in the lowest 5 percent in human development.) A colonial administrator on the Gold Coast lamented that “the natives nowadays no longer occupy themselves with the search for gold, but rather make war on each other to furnish slaves” (Nunn 2007). Where colonizers chose lower levels of extraction and invested more in protecting property from *unproductive actors*, people invested in productive activities and the colony was more likely to maintain development after independence. Where colonists settled, long-term development strategies held.

Extractive as opposed to inclusive institutions apply in the differences among the northern regions of North America and the southern regions of North America and South America. Land inequality and political inequality dominated the large plantation systems of the southern regions. They developed extractive systems based on slave labor and indentured servants. Only an elite had property rights. In the north of the Americas, above the “Mason–Dixon line,” the

land was not suitable for large plantations but rather small landholdings. To this day, South America and the “Deep South” states of the United States are less developed and remain poorer than the north.

Easterly and Levine (2016) tested the effect of settler and nonsettler colonization by measuring the relationship between the number of Europeans living in the colonies and their economic development in the late twentieth and twenty-first centuries. They found robust evidence that current country income increases with increasing proportions of Europeans who lived in the colony. In examining the population data, a *natural break* between what would be thought of as settler colonies and nonsettler colonies fell at 12.5 percent. Even in colonies whose share of European settlers fell below 12.5 percent, a marginal increase in the percentage of European residents resulted in an increase in income, although none has reached a high level of income. Furthermore, the positive effect on income of the proportion of Europeans living in the country during colonization remains when controlled for the proportion of Europeans living in the country today (Figure 2.13).

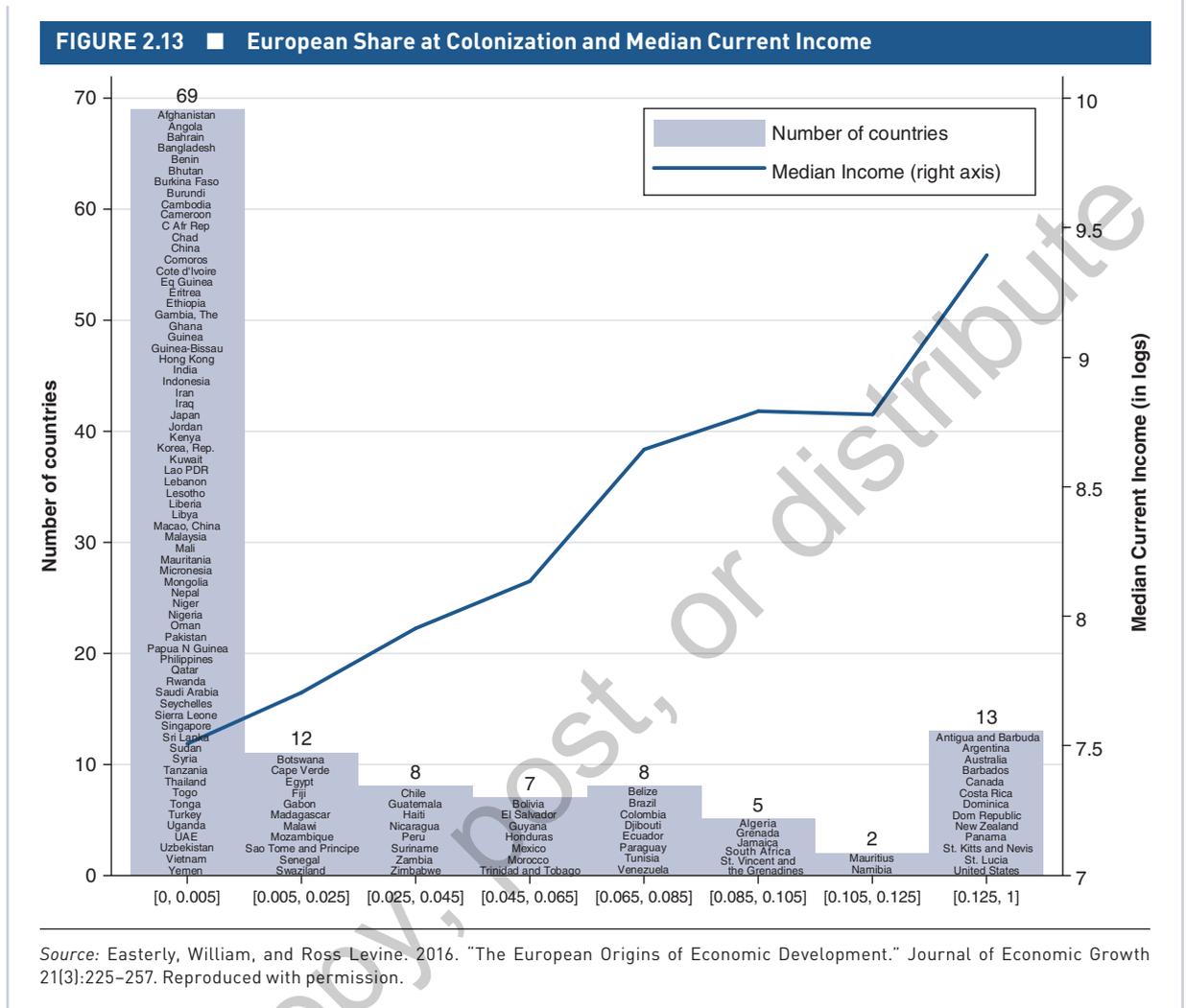
The reversal of fortune thesis that regions that were the most productive pre-1500 became the least productive after colonization and those that were the least productive pre-1500 became the most productive (Acemoglu et al. 2002) holds in the face of this evidence. Fewer colonizers settled in more densely populated colonies; those colonies provided more opportunity for extraction because there was more for Europeans to tax and more labor force to exploit in plantations and mines. This inhibited development. Where there was lower population density, Europeans settled and brought human capital, more egalitarian political institutions, and other factors such as technology and knowledge of global markets that fueled long-term economic development. Even with small European settlements, but above 4.8 percent, there is some benefit that offsets some of the negative effects of the extractive institutions.

Colonialism lasted into the 1960s and 1970s, even later in some countries. While scientists in advanced economies sent people to the moon, majorities in many post-colonial societies remained uneducated. In 1960, only 10 percent of adults in the low-income countries were literate (World Bank 1978). The five best universities in Africa, according to the *African Economist* (2015), all are in South Africa, a Dutch settler colony. The next four are in Egypt. There is only one in the top 10 not from these countries. It is in Tanzania. Even today, Africa has few scientists and engineers, about 1 for every 10,000 people in comparison with 20 to 50 per 10,000 in industrial nations. Although the African Union hoped for a scientific revolution in Africa to fuel development, improve agricultural productivity, fight disease, and preserve the environment, most countries have not followed through on commitments to advance science education (Mutume 2007).

## A CLOSER LOOK

### RELATIONSHIP BETWEEN PROPORTION OF EUROPEAN POPULATION DURING COLONIALISM IN RELATION TO INCOME

The greater the proportion of Europeans residing in the colonies, the greater their level of development today.



## Diversity and Conflict

While many rich countries, particularly the United States and Canada, recognize diversity as a source of creativity, energy, and entrepreneurship, diversity inhibits many developing societies. After shattering African states and kingdoms during the slave trade, colonial rule established political borders that fractured ethnic communities and combined them with others; some of whom had developed animosities related to the slave trade. Colonizers imposed Christianity and Islam on Indigenous religions, creating religious fault lines in addition to the ethnic ones. Ideological struggles during the Cold War pitted people against their fellow nationals. Despots of one ethnic or religious group led the persecution of others. Many societies never developed a sense of national identity capable of encompassing all groups.

Diversity in these societies weakened rather than strengthened development. Intra-societal violence across ideological lines during the Cold War and religious and ethnic lines thereafter have ravaged populations and societies. While the human cost has been high, the economic

effects are also high; the working-age population of many societies has been decimated, infrastructure destroyed, and the environment ravaged. Orphaned children and those living in refugee camps lose years of intellectual development, and physical growth is often stunted. Emotional and psychological trauma is extensive. A conservative estimate of the costs of a civil war to a country and its neighbors is about US\$ 64 billion. Armed conflict within and between countries peaked in 1990 and fell dramatically until the mid-2000s when it began to increase again. From 2007 through 2019, there have been two new civil wars a year on average (Center for Systemic Peace 2022). 2015 was the first year without any interstate conflicts. This held until the Russian invasion of Ukraine in 2022. The economic cost of these conflicts hovers around US\$ 13 to 14 trillion a year (Smith 2018).

In societies where diverse groups compete for power, developing institutions and spending money for the common good is not a priority. Only some of the population will thrive. A society cannot do well if only a portion of human capital is developed.

### Corruption

Corruption is endemic to inequality and underdevelopment. The poorest societies also tend to be the most corrupt. Transparency International's (TI) 2016 Corruption Perceptions Index (2017) found that corruption is even more strongly related to inequality than to income. The costs of corruption are high. The poor suffer the most from corruption. Diversion of public funds leaves governments less able to provide for a decent quality of life. Globally, about US\$ 500 billion in public health spending is lost to corruption and about 50 percent of children do not complete primary school in countries where bribery is common (WEF 2022b).

The OECD (n.d.) publication, *Boosting Integrity Fighting Corruption*, calls corruption one of the main obstacles to development, particularly reducing the life chance of the poor. The African Union, it states, found that African states lose about 25 percent of their total GDP—about US\$ 148 billion—to corruption. Gupta, Davoodi, and Tiongson (2011) found that child and infant mortality and student dropout rates are significantly higher in countries with high levels of corruption. The poor cannot afford to pay for services that should be free.

Corruption, the unequal distribution of power, and economic inequality reinforce one another while the majority of people suffer (Transparency International [TI] 2017). Bribery is a common form of corruption. People may need to pay bribes to get their children into school, to get a driver's license, or to get their trash collected.

The World Economic Forum (WEF) calls corruption the “hidden tax on global growth.” The costs to developing countries is US\$ 1.26 trillion annually and EU member states about US\$ 132 billion (World Economic Forum [WEF] 2019). Corruption undermines the development of countries in subtle ways. Olken and Pande's (2012) study of corruption drew from examples across a wide range of activities and a multitude of ways in which corruption costs societies. Efficiency costs are severe. For example, in Aceh, Indonesia, the authors found that truck drivers regularly paid bribes to avoid being forced off the road at weigh stations. Nearly all the trucks weighed in their research were overweight. Two in five were more than 50 percent overweight. This leads to rapid deterioration of the roadways. This is a hidden cost. In other cases, public expenditures might never reach their targets. In Uganda, one grant for special education sent by the central government had shrunk by 87 percent by the time it reached the local school.

Corruption by low-level officials and bureaucrats bears a high economic cost and a high cost in human capital, as when children lose out in education or when nutritional and health care deficits lead to physical and mental stunting or infant and child mortality. Corruption at high levels, kleptocracy, steals from every institution and every person in the society and undermines

the legitimacy of the government. With corruption, people go hungry while the corrupt live in luxury. Corrupt leaders of many former colonies enriched themselves at the expense of their people. Foreign aid channeled through corrupt leaders ended up in overseas bank accounts or was used to build lavish palaces with exotic animals. The World Bank and U.S. Office on Drugs and Crime found that about US\$ 20 to 40 billion of development assistance is stolen by high-level corruption (cited in Gray et al. 2014).

Wealthy countries that shelter money for politicians or business owners are complicit in the corruption and benefit from it. *Financial Flows and Tax Havens* (Centre for Applied Research 2015) reports on recorded and unrecorded “net resource transfers” from poor to wealthier nations. Developing countries have been acting, in effect, as creditors to wealthier nations, with the balance of money flowing out from the poor to the rich nations. This is, of course, the opposite of what development efforts aim to accomplish. The report calls tax havens and illicit financial flows one of the greatest drivers, if not the greatest driver, of inequality in developing countries. The financial flow and tax haven study found that developing countries lost nearly US\$ 3 trillion in recorded transfers out of the countries and \$13.4 trillion<sup>10</sup> in capital flight. These transfers are, in effect, loans to wealthy financial institutions in developed countries.

Political leaders guilty of grand corruption span the globe. Zine al-Abidine Ben Ali, the former president of Tunisia and the first leader to fall in an Arab Spring uprising, stole US\$ 2.6 billion from his country (TI 2017). Viktor Yanukovich, former president of Ukraine, lived in a lavish estate with an exotic zoo, a golf course, a spa with a salt grotto, and a full-sized Spanish galleon. Decorative items in his estate totaled in the millions of dollars. During the Cold War, corruption was endemic among heads of state of developing countries. Mobutu Sese Seko of Zaire (now the Democratic Republic of the Congo [DRC]), Suharto of Indonesia, Ferdinand Marcos of the Philippines, and many more of that era and beyond took trillions of dollars from their countries—much of it development aid—and contributed to the impoverishment and failure to develop or thrive their people. In some of these societies, such as the DRC, development was more robust in colonial times than in independence.

Kleptocracy is not limited to the developing world. No nation is without corruption. In the United States, Illinois Governor Rod Blagojevich went to prison for trying to profit from his authority to appoint someone to fill the U.S. Senate seat vacated by Barak Obama when Obama became president. Ray Nagin, the mayor of New Orleans, profited from funds intended to help the recovery following Hurricane Katrina. Edwin Edwards, a long-serving governor of Louisiana, collected millions on the awarding of casino licenses.

### The Resource Curse?

Ironically, many countries that are rich in a resource such as oil or precious metals are poor. While being resource rich should be a boon to growth, it can also inhibit growth. One way in which this happens is through the *Dutch disease*. When the Netherlands discovered large gas reserves in the 1960s, gas exports surged, bringing in foreign currency and driving up the value of Dutch currency. Increased value of the Dutch currency made Dutch exports more expensive and less competitive. Other industries suffered and unemployment increased.

Resources are also a curse if investors rush to invest in the resource, neglecting other development and preventing the economy from diversifying. Many of the extraction industries do not employ many people once the wells are dug and the pipelines laid. While construction might employ thousands, operating the facilities often employs fewer than a hundred.

Dependence on one or two commodities is risky for a country. Prices are volatile, and supply and demand are not predictable. Consider oil prices. In less than 10 years, prices were slashed

more than 50 percent. First, in the 2007–2008 recession, production virtually stopped due to decreasing demand for oil. China's growth is slowing, also decreasing demand. New natural gas wells in the United States increased the fossil fuel supply and decreased demand for oil. Prices dropped to below US\$ 50 a barrel, whereas they had been above \$100 before the recession. Oil-dependent countries suffered. During 2022, oil prices soared, one reason being that demand following years of COVID restrictions increased faster than production, which had declined along with demand during the first years of the pandemic.

How a country uses the profits from valuable commodities influences whether it will help or hinder development. China's growth fueled demand for Africa's natural resources. This could have revived Africa's manufacturing. Instead, Africa's industrial output decreased from 3 percent of global output in 1970 to half of that in 2016 despite the economic boom. Most African countries used the windfall to fund nonproductive programs. Some economists fear that this is going to be a repeat of commodity-driven boom and bust—a resource curse (Tafirenyika 2016).

Where governments control resources, authoritarian governments may use them to their own advantage to consolidate power. When Russia benefitted from the prerecession increase in demand for oil, Vladimir Putin's authoritarian tactics did not seem to bother many Russians. After a short run with democracy in which the economy did not do well, they were happy with the stronger economy. The revenue stream from resources can pay for benefits as long as the commodity price holds. Populations can be kept satisfied with state-offered benefits. At the same time, politicians can enrich themselves with little public oversight of state-run enterprises. Corruption can thrive.

Resources are not necessarily a curse, of course. Whether or not they are depends on human agency. Britain and the United States used vast coal reserves to industrialize. Ethiopia and Tanzania, while resource rich, experienced high economic growth without depending on their resource wealth. Whether it is a curse or a blessing depends on the governance structure and how the benefits from the resource are used. If they fuel diversification and industrial or service development, other industries can be built. Saudi Arabia, faced with falling oil prices and a public more restive due to the resulting decrease in benefits, recognized that the country could not depend on oil and is now trying to diversify its economy.

## Climate Change

Climate change and pollution bear a cost to societies. The World Bank (2010) projected the costs for developing countries to range from about US\$ 75 to 90 billion annually for the years 2010 to 2050,<sup>11</sup> based on two different scenarios. The costs include such things as adapting agriculture, preventing and treating increases in vector-borne diseases, and harm to trade and fisheries, among mitigating factors. This estimate does not include the cost of forced migration and illnesses such as heat stress, pollution, and increased allergen levels. Climate change also contributes significantly to violent conflict, particularly due to drought and food insecurity. Conflicts may be localized among groups competing for resources, as in Kenya and Uganda, or may evolve into civil wars. Terrorist groups also take advantage of drought conditions to control water supplies (as Al-Shabab has done in Somalia) or to lure recruits. These latter costs cannot be reliably estimated. However, they are, and will undoubtedly continue to be, in the billions.

In Africa, the costs of premature death due to pollution are high. In 2013, there were more than 250,000 premature deaths from ambient air pollution and more than 450,000 from indoor air pollution. The economic cost of these deaths was US\$ 447 billion. The United States also experiences thousands of premature deaths every year due to air pollution. No continent can afford to lose this much human or economic capital (Roy 2016).

## The Global Economy

Participating in the global economy, the global division of labor, is essential for lifting countries out of poverty. Openness to the global economy, as measured by the percentage of GDP accounted for by imports and exports, is positively related to human development. Münch (2016) found that urbanization fosters specialization and thus facilitates integration into the global division of labor. Government expenditures on public goods, such as education, the rule of law, and health care, and the percentage of the population that is economically active enhance human development.

How a country participates is important. Developing countries have higher portions of GDP and labor in agriculture. The export of cash crops and raw materials, low value chain exports with easily manipulated prices, remains the mainstay of the least developed societies. They also tend to have high fertility rates. Both inhibit human development (Münch 2016).

For now, manufacturing remains critical for development in most countries. Without developing their manufacturing industries with reasonable wages, countries are less able to advance economically. Integrating into the supply chain of an international firm can help developing nations advance by increasing their total exports; it does not necessarily advance their own manufacturing sector. It is essential that they benefit from a transfer of technology. This was something that the Asian Tigers insisted on, thereby facilitating their own growth.

## PATHWAYS TO DEVELOPMENT

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Societies exist across the continuum of development. As discussed previously, most of the developed countries, those of Western Europe and North America, diverged at the time of the Industrial Revolution. Other societies never *took off* and are still growing slowly. There are at least two other patterns worth considering. Not all the most advanced countries took the *Western* route, yet they advanced and took places among the wealthiest societies. Other countries showed rapid development and yet stalled. This section examines these alternate routes of development. Each provides a framework for thinking about global inequality and poverty in specific contexts.

### Divergence in Asia: The Fast Growth of Japan and the East Asian Tigers

Landes (1999) contrasted the post-World War II success of Japan and the late twentieth century rise of the East Asian Tigers with the stagnation and decline of other societies. According to Landes's analysis, Japan's success grew from deep roots in every aspect of its society.

A fundamental feature of Japanese culture is the strong sense of family that extends up through to the nation. This translates to a sense of higher purpose, including in economic activity, serving the nation first, family second, other groups third, and the self somewhat further down the line. This dutifulness supports a strong work ethic that would make the Calvinists jealous. Education played an important role as well. Education has been important historically in Japan, being among the first countries to require universal primary education. Education includes willingness to learn from other countries. When manufacturing moved to Japan, companies did little to protect the intellectual capital in their products, believing they had nothing to fear from these *defeated* people. Japanese engineers quickly reverse engineered foreign technology, disassembling and learning from it. When traveling to factories abroad, they humbly asked questions, photographed, tape recorded, watched, and most importantly, learned (Landes 1999).

Japanese engineers also invented, focusing on the highest technology products. They studied the markets and created products to meet demands. They developed more efficient production techniques. Their ethic of collective responsibility fostered a team approach and willingness of workers to submit to their superiors. Economic policy stressed protecting fledgling industries. When forced into open trade agreements, they instituted nontariff barriers such as refusing some products due to the *different conditions* in Japan. Their economic policy was not to get the *lowest prices* and *discount distribution* but rather to build market share, capacity, and industrial and military strength (Landes 1999).

While the international financial institutions advocated import substitution—replacing imported products with ones manufactured domestically—the Japanese complied but developed export markets as well. When privatization was advocated, Asian governments established industries needed for development if the market did not. This is how Korea created one of the most efficient steel industries in the world, spurring its automotive and other industries, and how Taiwan created its Formosa Plastics industry (Stiglitz 2006).

Rather than choosing between an economy completely open to market forces or strict central planning, the Asian societies that grew quickly in the 1980s and 1990s took another path. They managed their economies but spread the benefits of development widely. Although specific policies varied, the main strategies included the following (Stiglitz 2006):

- Encouraging saving by creating savings institutions to ensure capital flow from stable domestic sources. Singapore took this a step further by requiring mandatory savings through wage attachments
- Opening their markets slowly while protecting fledgling industries
- Planning growth in export industries carefully, specifying which industries would be developed and how imports would be restricted
- Selecting foreign investment cautiously and requiring foreign companies to transfer technology and train workers
- Opening financial markets slowly and methodically

Development in these societies was successful but not trouble free. Too great an influx of foreign capital along with relaxing regulations led to short-term speculation and the financial crisis of 1997 (Stiglitz 2006).

### Slow Growth or Income Traps?

The explosion of growth in the 2000s lifted many countries and people out of poverty and into low-income status. From 2001 to 2011, the poverty class shrank by 669 million people, about one third. Growth rates averaging about 6 percent a year in a few developing societies pushed people over the poverty threshold into low income. Every 1 percent growth per capita in a society reduced poverty by about 1.7 percent on average. The more equal a society was, the more poverty dropped (*The Economist* 2013).

From 1950 to 1980, there was significant mobility regarding the numbers of societies that moved up income categories. From the postwar period into the 1980s, industry *unbundled* and manufacturing spread into poorer economies, lifting incomes in Latin America, parts of Eastern Europe, and Asia. Japan and Korea rebuilt with the help of the West after World War II and the war in Korea. The industrialized world turned toward more services and higher-level

manufacturing (Baldwin 2006). Advancing through income categories took longer in the decades from 1980 to 2013 than from the 1950s to 1980. Although 31 countries moved from low-income status (1990 purchasing power parity less than \$2,000) to lower middle-income status (\$2,000 but less than \$7,250) during the 1950s, 1960s, and 1970s, only two moved up during the three decades from 1980 to 2013 (Felipe, Kumar, and Galope 2017). Some societies have remained in low-income status for generations, as have 35 from 1950 to the present (Felipe et al. 2017).

Movement among societies from lower- to upper-middle class (\$7,250 but less than \$11,750) and from middle to upper income (above \$11,750) is also progressing more slowly since 1980 than it did from 1950 to 1980. After 1950, the median number of years it took countries to advance to the upper middle-income category was 28. However, three countries in this group took from 50 to 54 years. Others advanced much more rapidly.<sup>12</sup> In addition, the number of high-income countries increased from 3 to 21 from 1950 (beginning in earnest in 1960) through the 1980s but increased by only 12 from 1980 to 2013 (Felipe et al. 2017).

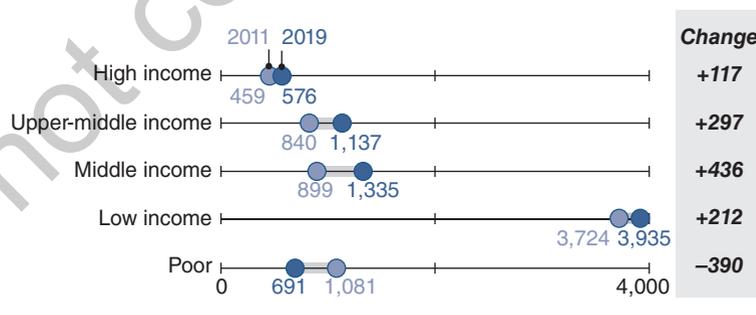
## A CLOSER LOOK

### GLOBAL ECONOMIC MOBILITY, 2011–2019, 2019–2020

From 2011 to 2019, poverty decreased and the global middle class expanded. Although the middle class had the greatest increase, particularly in China and other Asian countries, the poverty class remained the largest. Fewer people moved into upper middle-, and high-income classes (Figure 2.14). As with other areas of improvement, COVID reversed gains at every class level but with significant differences among regions and economies (Figure 2.15). Advanced economies experienced the smallest increase in poverty while the greatest losses were in South Asia and sub-Saharan Africa.

**FIGURE 2.14** ■ Increase (or Decrease) of People in Income Tiers from 2011 to 2019

Number of people in each income tier, in millions

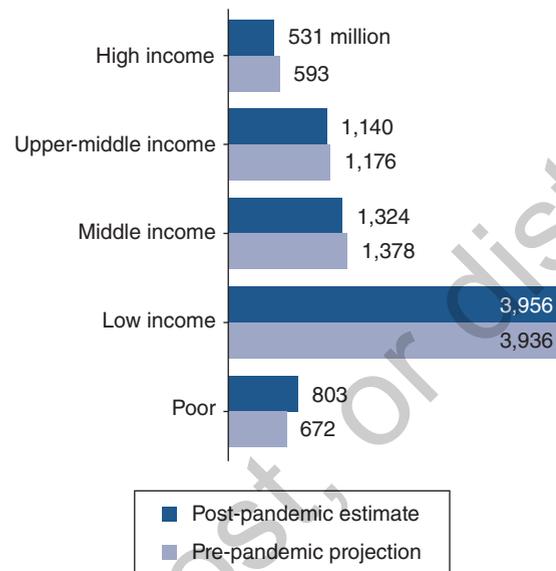


The global middle class expanded rapidly from 2011 to 2019 and poverty fell.

Source: Kochhar, Rakesh. 2021. "The Pandemic Stalls Growth in the Global Middle Class, Pushes Poverty Up Sharply." Pew Research Center. [https://www.pewresearch.org/global/2021/03/18/the-pandemic-stalls-growth-in-the-global-middle-class-pushes-poverty-up-sharply/pg\\_2021-03-18\\_global-middle-class\\_0-01/](https://www.pewresearch.org/global/2021/03/18/the-pandemic-stalls-growth-in-the-global-middle-class-pushes-poverty-up-sharply/pg_2021-03-18_global-middle-class_0-01/).

**FIGURE 2.15** ■ Number of People by Income and Socioeconomic Status Before and After the COVID-19 Pandemic

Estimated number of people in each income tier in 2020, before and after the global recession, in millions



The pandemic shrank the upper- and middle-classes and swelled the low-income and poor classes.

Source: Kochhar. 2021.

Given their current growth rates and the year that they entered their income category, there are 10 countries undergoing slower than average transitions out of lower middle-income status and 4 undergoing slower than average transitions from upper middle-income to high-income status (Felipe et al. 2017). Countries now ranked as high-income status (US\$ 12,000 or above) enjoyed, at some point in their development, a high share of manufacturing employment—18 percent to 20 percent is the threshold for countries that are rich. The earlier that countries achieved their peak in manufacturing employment, the greater their GDP per capita was likely to be at that time (Felipe et al. 2018).

Are those countries that did not advance trapped, as some argue? The term *trap* is misleading because countries can and do move up income levels, albeit at varying rates. Some move more rapidly and some more slowly, depending on a complex set of circumstances that contribute to growth.

The countries that have been in the lower-income tier since 1950 have a high percentage of their workforce in agriculture. No country whose share of the labor force did not reach 16 percent in manufacturing ever achieved a per capita income of US\$ 6,000 or above. It may well be that increasing a country's manufacturing workforce is more difficult than it was in the past (Felipe et al. 2018). Certainly, mechanization must be a factor. So too are movements toward

more service economies. Another problem is that in poor countries manufacturing activity tends to be in the lowest levels of the value chain. While the work is similar, it pays poorly in comparison with similar activity in other countries; contrast textile workers in Bangladesh (among the poorest) with those in Colombia (middle income). Poor quality employment and insecure employment in developing and emerging economies sustain poverty. Maintaining their growth rates and securing adequate jobs will be essential for these countries to advance to higher income levels.

### Is China Stuck?

In 1978, China moved from a centrally planned economy to a market-based economy, spurring the fastest expansion of any society in history, averaging about 10 percent per year. Manufacturing wages in China tripled from 2005 to 2016, rising above wages in countries such as Mexico and Brazil, helping push all wages upward because workers could leave poorer paying jobs for better wages (Worstell 2017). The millions of Chinese that growth lifted out of poverty is a major factor in improving global poverty statistics. This was not accomplished without problems. Rising inequality, environmental issues, rapid urbanization, large debt, and an aging population each pose a serious challenge to growth in China (World Bank 2016).

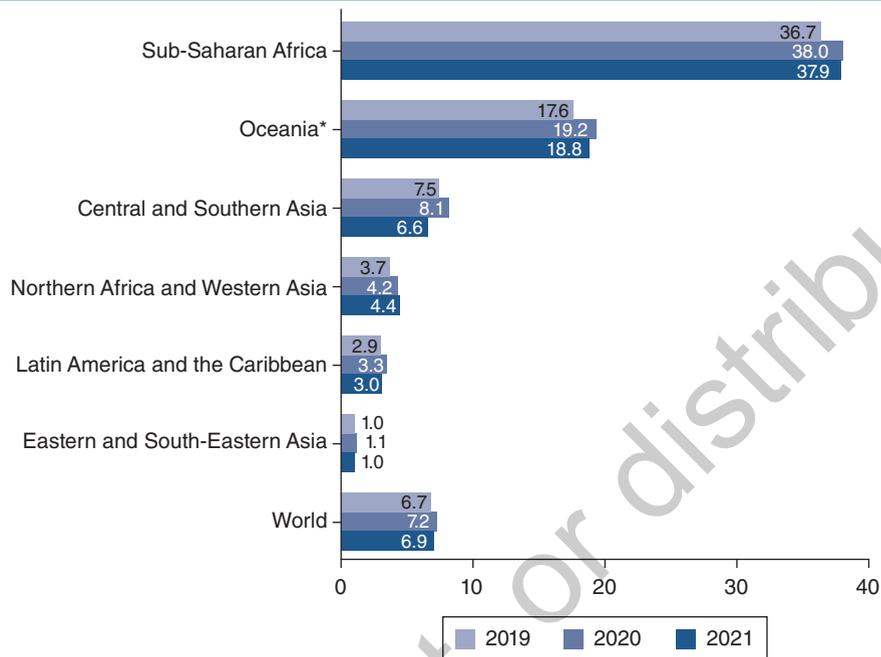
In 2015, China had its slowest growth in 25 years. With a shrinking labor force, labor activism, and rising wages, industry costs are pushing upward and China is losing some of its competitive edge. Economic hardships in other countries have weakened demand for its exports. Without more efficient use of resources and improvements in productivity and innovation, China may remain in the middle, unable to compete effectively with lower cost countries or high-developed ones (Johnson 2015). China became a lower middle-income country in 1992 and by 2009 had achieved upper middle-income status. If it does not rise by 2024 it would be considered as slower than the median in moving into upper income (Felipe et al. 2017). As of 2023, China remained in the upper middle-income category (World Bank n.d.).

### Are We All Getting Stuck? Wages and Workers

Prior to the COVID-19 pandemic, between 2015 and 2019, global wage growth fluctuated between a sluggish 1.6 percent and 2.2 percent, with wide variation among countries. Among the larger emerging economies real wage growth grew rapidly. As consequence of the pandemic disrupting both supply and demand, economic growth shrunk in nearly every economy except China in 2020, repressing wage growth further. Wage inequalities increased as the crisis hurt low wage workers the most, especially as many countries postponed planned increases in the minimum wage (ILO 2020–21). For the first time in the twenty-first century, the number of workers living in extreme poverty rose.

Unemployment in most developed societies had recovered from the 2007–2008 recession. By 2018, global unemployment dropped below 5 percent, its lowest level since the recession. With the effects of COVID, it may have spiked to 10.9 percent in May 2020, but decreased to 7.9 by September, losing the progress that had been made since the 2007–2008 recession. Unemployment is a slippery measure because countries may calculate it differently from one another and differently within one country depending on the agency or its use. It may mask seasonal employment and underemployment. With high unemployment wage growth may be sluggish, because supply of labor outstrips demand. Sluggish wage growth is a risk factor for overall growth. With less income, people spend less, and consumer spending is an important driver of growth. This could in turn shrink wage growth.

**FIGURE 2.16** ■ Proportion of the Population Living on Less Than \$1.90 a Day by Region, 2019–2021 (percentage)



\*Excluding Australia and New Zealand.

Source: United Nations. 2022. "Sustainable Development Goals Report: 2022." <https://unstats.un.org/sdgs/report/2022/The-Sustainable-Development-Goals-Report-2022.pdf>.

### Wage Growth in the United States

While the COVID-19 pandemic exacerbated wage declines, it continues a trend of shrinking wages as a proportion of growth. In the United States, wages and productivity grew together from 1947 until they diverged in the 1970s. Since 1948, the growth in productivity soared while real wages stagnated for most of American workers. Had worker wages kept pace with productivity, the median wage in the United States in 2018 would have been about \$60,000, not \$41,000. Even in the twenty-first century, wages have grown disproportionately, with the bulk of wage growth going to the top 95 percent of workers, even as wage decreased in some years for 70 percent of workers.

## A CLOSER LOOK

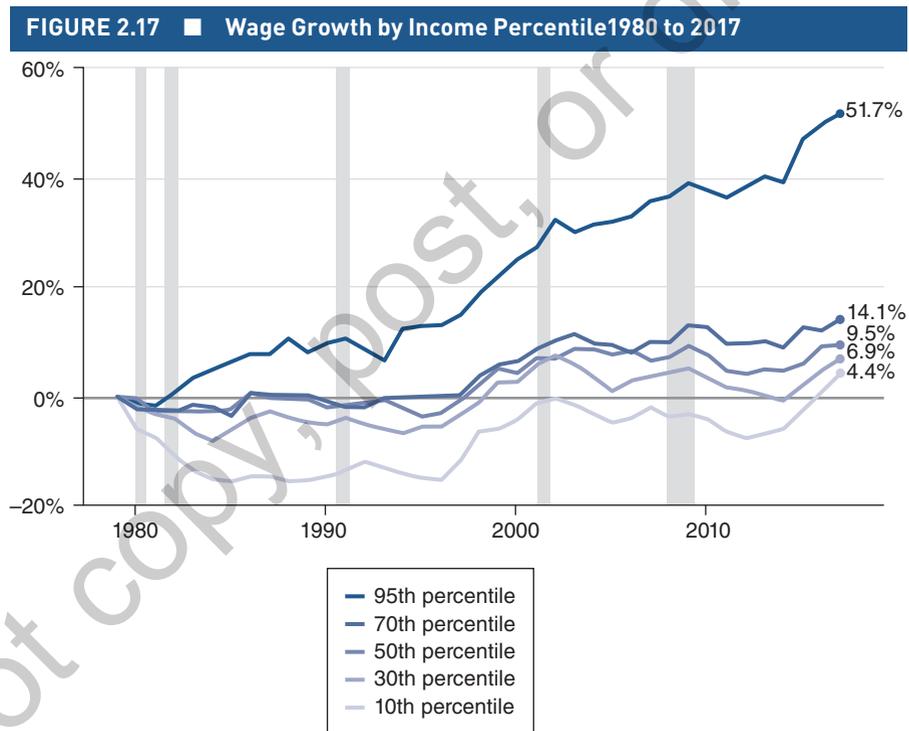
### DISPROPORTIONATE WAGE GROWTH 1979–2017: UNITED STATES

Labor's share of income diminished over time from the 1970s onward. Productivity growth outpaced wage growth, and the two diverged even further over time. Growing at an average of just below 0.2 percent from 1973 to 2017, wages overall rose 10 percent when adjusted for inflation. Not everyone's wages rose 10 percent, however. Wage growth has been

disproportionate. For the bottom quintile (20 percent of workers), wages decreased from 1979 to 2016. For those in the top quintile, they increased 27.41 percent from 1979 to 2016—significantly more than the 10 percent average (Shambaugh et al. 2017).

The consequences of shrinking and stagnant wages are severe and limit people's life chances. Minimum wage stagnation plays an important role in depressing growth. States and cities that increased their minimum wage experienced growth, not decreases, in low-wage worker income. Although not yet caught up to historic highs, minimum wage increases showed up in an overall wage increase in the bottom 10 percent since 2010. The increase was not as high as for the top two quintiles, but in states that increased the minimum wage, the increase was 5.2 percent of real wage growth. In states that did not, it was 2.5 percent (Shambaugh et al. 2017).

Restricting worker power and choice also results in lower wages. This began in earnest in the 1980s. More than 28 percent of workers belonged to unions in 1956 compared with about 10 percent in 2016. Noncompete contracts (even for lower-level workers) and collusion among firms also hurt worker wages. Worker mobility, which contributes to about 1 percent of wage growth per quarter as workers move to find higher incomes, declined nearly 50 percent from 1990 to 2016. Recessions, licensing requirements, noncompete contracts, and land use restrictions related to housing all contributed to decreasing mobility (Shambaugh et al. 2017).



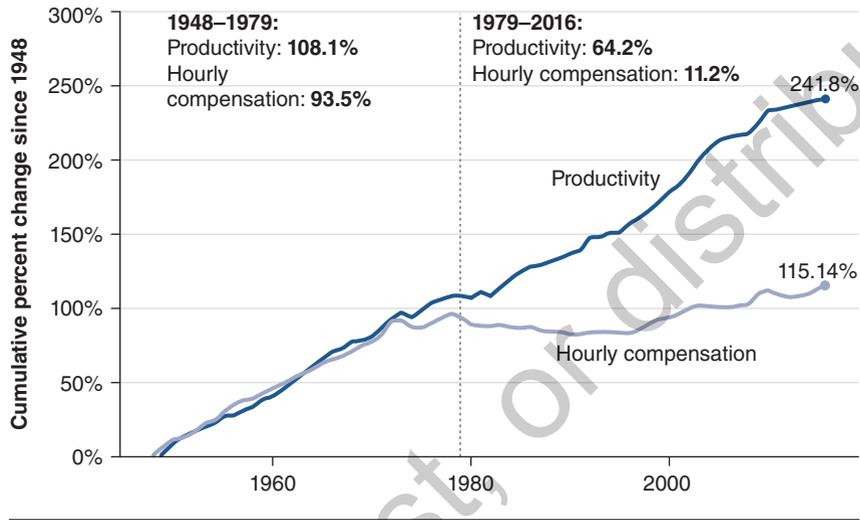
From 1979 to 2017, Wage Growth for the 90th and 95th Percentiles Grew Much More Rapidly Than the Wages of the Rest of the Country, Expanding Inequality Further.

Source: Gould, Elise. 2018. "The State of American Wages 2017." Figure C. Washington: DC: Economic Policy Institute. <https://www.epi.org/publication/the-state-of-american-wages-2017-wages-have-finally-recovered-from-the-blow-of-the-great-recession-but-are-still-growing-too-slowly-and-unequally/>. Reproduced with permission.

## LABOR'S INCOME RELATIVE TO PRODUCTIVITY

**FIGURE 2.18** ■ Real Labor Productivity and Hourly Compensation, 1947–2017

Labor's compensation grew in tandem with productivity until the mid-1970s. Since then, compensation has declined relative to growth in productivity.



Source: Gould. 2018.

**FIGURE 2.19** ■ Labor's Share of Income, 1973–2017



Labor's share of income in 2017 was a fraction of their share in 1976.

Source: Shambaugh, Jay, Ryan Nunn, Patrick Liu, and Greg Nantz. 2017. "Thirteen Facts about Wage Growth." Washington, DC: Brookings Institution. [https://www.brookings.edu/wp-content/uploads/2017/09/thp\\_20170926\\_thirteen\\_facts\\_wage\\_growth.pdf](https://www.brookings.edu/wp-content/uploads/2017/09/thp_20170926_thirteen_facts_wage_growth.pdf). Reproduced with permission.

Government policies can make a difference in wage growth. Minimum wage reform, collective bargaining legislation, and programs to increase labor productivity through education and training, research and development funding, tax incentives, infrastructure investment, and universal occupational licensing are actions governments can take. Income tax legislation—such as earned income credit—can distribute the gains of productivity more equitably. Corporations must consider reforming methods of determining executive compensation and providing fair wages commensurate with labor productivity. Ending noncompete practices for skilled and unskilled workers and other practices that limit mobility can help workers help themselves.

In addition to wages, stock options provide wage workers with opportunities to grow wealth. Stocks grant workers a share in corporate or company ownership and profit that grows (or decreases) in value as the corporation does.

## FIGHTING POVERTY AND INEQUALITY

What is the secret to providing equal life chances around the globe? There has been significant progress, but many countries and many people within wealthy countries still lag behind despite decades of efforts. There is not a one-size-fits-all answer to any global problem. Developing and developed countries have unique histories and needs.

Providing people with equal life chances to achieve their potential is increasingly recognized as a human right. Equal life chances do not guarantee or mean equal results. They mean an equal chance to succeed. Providing for equal life chances requires addressing the needs of the poor in general as well as target groups such as women, children, and ethnic and racial minorities. It involves a combination of programs and policies to guarantee human and civil rights, eliminate extreme income inequality and extreme poverty, provide social welfare remedies to supplement labor market weakness, and address noneconomic forms of inequality.

Programs and policies to spur development and combat inequality and poverty at the same time must build an infrastructure for inclusive and sustainable growth. In many respects, these activities are governance activities because they determine the direction the society takes and the opportunities afforded to people in the society. Efforts of national governments, international governmental and nongovernmental organizations, and the private sector must be coordinated to tackle these problems.

### National Governments

Although the global economy has eclipsed the nation-state or country, national governments still have an important role to play in reducing inequality and poverty. International aid and governmental organizations should assist in these domestic improvements, but national governments need to take the lead.

### Direct Economic Growth

Economic growth is not the best measure of the health of the global economy or a domestic economy. It is not an indicator of general well-being of people. It is important, but economic growth does not guarantee an increase in the life chances of people. The past few decades have demonstrated that economic growth alone does not reduce inequality; in many cases, it exacerbates it. *Inclusive growth* that is shared across all segments of society will not happen without deliberate effort.

Since the early 2000s, many economies that grew quickly experienced “jobless growth,” signified by an employment to population percentage that stagnated at about 60 percent (UNDP 2013). Economic growth needs to target incomes at the bottom of the pyramid. This means more jobs and jobs that offer a living wage, security, and safe working conditions.

The UNDP (2013) called on governments to facilitate the growth of small and medium-sized enterprises. These tend to be labor intensive and have proven to create more jobs faster than larger enterprises. Steps that governments have successfully implemented include the following:

- Working through central banks with public funds to guarantee loans, as has been done in China, Malaysia, Indonesia, and India
- Offering education and information on new technologies, products, and markets
- Offering incentives to larger enterprises to contract with smaller enterprises and procure materials and other inputs from them
- Requiring a certain number or percentage of government contracts to go to small and medium-sized enterprises

Governments also provide employment through public works projects such as infrastructure. These jobs have been shown to have a lower net cost per job created. These government-created jobs often create a de facto minimum wage and force other wages up to that minimum without minimum wage enforcement costs.

### Tackle Inequality Directly Through Social Protection Programs

How growth diffuses through the globe and society matters. Where poverty and inequality efforts are not alleviated through work and wages, redistribution programs can substitute. Wilkinson and Pickett (2009) demonstrated that the strategy for achieving greater equality in a society does not affect the benefits to the society.

One strategy is social transfer. Finland, one of the most equal and wealthy societies, is also the most generous country. Its noncontributory social transfers—those to which neither the employee nor employer contribute—account for 43 percent of the income of households below the poverty line. Contributory transfers account for another 37 percent.

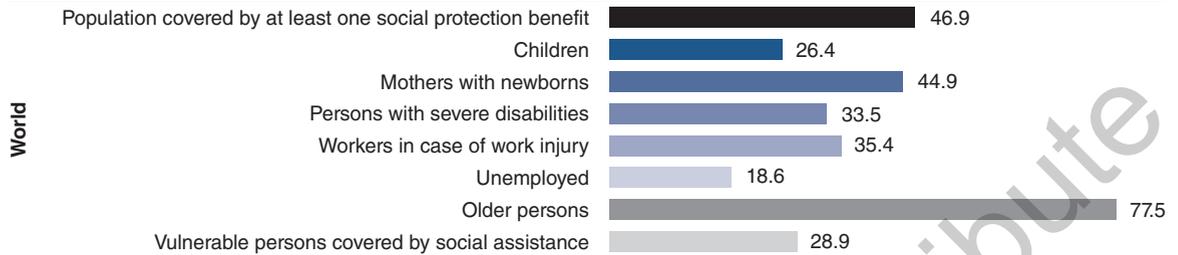
Social welfare programs cover few of the poorest people in the poorest nations. In sub-Saharan Africa and South Asia, which have the highest incidence of extreme poverty, only about 22 percent of the population has access to any type of social protection. Rural households tend to receive smaller amounts of income per capita than their urban counterparts (Figure 2.20) (Food and Agriculture Organization of the United Nations [FAO] 2015).

## A CLOSER LOOK

### SOCIAL WELFARE PROGRAMS

Social welfare assistance is still inadequate in much of the world. Regional coverage data is available in the World Social Protection Report 2020–2022.

**FIGURE 2.20 ■ Shares of Population Covered by Different Types of Social Protection Programs, across the World**



Source: International Labour Organization. 2021. "World Social Protection Report 2020–22: Social Protection at the Crossroads – in Pursuit of a Better Future." [https://www.ilo.org/global/publications/books/WCMS\\_817572/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_817572/lang--en/index.htm).

### Ensure Dignity in Work

The international conventions requiring equal rights for all people have the force of international law, and their standing is reinforced by inclusion in national constitutions and subsequently other domestic laws. Elkins, Ginsburg, and Simmons (2013) confirmed that international treaties influence national governments to implement similar reforms in their constitutions and other domestic laws. Multiple levels of regulatory authority increase the likelihood that domestic mobilization in combination with international pressures increase actual respect for rights. Duplication of laws increases the probability that they will be enforced.

Ensuring that all segments of society have equal access to the tools of success is important for social justice and also for development. If a society develops only part of its human capital and prevents lower economic classes, women, and ethnic, religious, and Indigenous minorities from achieving their potential, then the society can never achieve its potential. Civil society groups, international governmental organizations, and other governments all have a role to play in ensuring that every government provides every member with the tools available to succeed.

### Guarantee an Annual Income

This is an idea that has been circulating for a long time. It has been popular (and unpopular) in both liberal and conservative circles. There are a number of variations on the basic idea. One set of proposals would grant an annual cash amount to every adult. Another would limit it to those earning under a specified amount. For those plans that propose grants only for the poor, the amount is usually equivalent to a poverty income. Those proposals to offer grants to everyone are generally lower.

Switzerland held a referendum on a guaranteed basic income in June 2016. It was overwhelmingly defeated at the polls, with 77 percent against it to 23 percent in favor. It would have given about US\$ 2,555 to each adult and about one quarter of that for each child. The Finns experimented with such a program from 2017 to 2019 as a solution to a high (10 percent) unemployment rate. The Finnish plan gave a group of 2,000 randomly selected unemployed persons about US\$ 876 a month unconditionally and tax free. The trade-off is that it was to replace all the social welfare programs. At the end of 2018, the Finns added a requirement that recipients work 18 hours within the first 3 months or enter a training program. The idea has not died.

Sam Altman, a venture capitalist, began his own experiment in the United States in Oakland, California, in 2017—giving \$2,000 a month to 100 families to help them escape poverty and live healthier lives (Jacobson 2017). Mayors for a Guaranteed Income was formed in 2020 and is helping cities across the United States establish pilot programs. Over 80 cities belong as of this writing and are in various phases of implementation.

### **Provide Living Wage and Decent Work Positions**

Work is the best poverty reduction program. Providing a minimum wage, or a living wage, can be part of an overall poverty reduction strategy. In developing societies, less than half of workers are covered by minimum wage policies (Grindling 2016). In many societies that have minimum wage laws, the minimum does not meet the standard to bring the worker or household to the poverty threshold.<sup>15</sup>

Minimum wage policies do not always affect the poorest workers. Increasing minimum wages will not help workers in the informal economy. In many countries, it does not cover workers in certain industries, certain sized companies, or other considerations. How many are employed in these sectors and the poverty rates among the self-employed have an impact on the effect of minimum wage increases. The effect of minimum wage increases on unemployment, whether there are losses and how significant they are, is also an important consideration.

While there is fear that increasing minimum wages might slow growth or employment, a number of studies show that modest increases in minimum wages need not do either. For example, in just 7 years in Brazil, the minimum wage was increased 80 percent (hardly modest). This was accompanied by a decrease in inequality, about 16 percent of it accounted for by the rise in minimum wage. In the case of Thailand, an increase in the minimum wage is expected to boost both employment growth and GDP growth (UNDP 2013).

In Brazil, while the minimum wage increase may have decreased poverty overall, the gap between the poorest and average workers increased. In Colombia, there were similar results, with minimum wage increases having little impact on the poorest. The conclusion of reforms in Nicaragua, Colombia, and Brazil is that when the minimum wage increase affects the heads of households, as opposed to secondary workers, poverty falls even if some secondary workers lose work (Grindling 2016).

Whether or not minimum wage increases have an impact on poverty and unemployment depends on country-level variables such as the nature of the labor market. To avoid increasing unemployment, countries can supplement employers to reduce their costs.

### **Recognize Unpaid Labor**

Work is a source of dignity for all humankind. Recognizing the value of unpaid work could be a critical step in reducing poverty, particularly among women, who do the largest share of unpaid labor and comprise, along with children, the greatest proportion of the poor. Most of this unpaid labor is in household production.

Household production has a slight correlation to income; high-income households have a slightly higher level. As fewer hours have been spent on household tasks over time, household production has decreased; nevertheless, incorporating household production into income would have increased personal income by US\$ 10.8 trillion in 2019, more than three times the size of the global tech industry (Oxfam 2020). Some form of payment to households, perhaps based on the number of members, would elevate the income of poorer households by a greater percentage than that of wealthier households, decreasing the inequality gap.

## Education, Education, Education

Competing in a global economy requires skill and knowledge. Lifelong learning and skill training need to be available to all people. Whether this is a function only of government or of the private sector and government might be different in every country but is essential for all.

While the quantity of education need not increase in developed countries, the quality of public education and opportunities for adults in many countries needs to be improved. Even in developed countries, educational outcomes are strongly linked to parental background. Training and adult education opportunities are more available to higher-skilled workers than to medium-skilled workers, who have more opportunity than lower-skilled workers, even in the more equal Scandinavian countries (Förster, Nozal, and Théveno 2017).

## Intergovernmental and Nongovernmental Aid Organizations

### Target Foreign Aid

Foreign aid programs of governments and intergovernmental organizations and agencies expanded following World War II. The Marshall Plan, designed to rebuild economies of Europe, and the Bretton Woods institutions, the International Monetary Fund (IMF) and the World Bank, all of which among other functions, have a role in setting criteria for aid recipients and allocating funds. Although the initial targets of stabilization and reconstruction were in Europe, the goals of the institutions evolved to concentrate both their efforts on developing economies. Development aid hit its highest recorded level in 2021, US\$ 179 billion, about .33 percent of donor countries' combined GNI. (This includes US\$ 6.6 billion for COVID vaccines and in-donor country costs of refugee resettlement, not strictly speaking development money [OECD 2021].)

Foreign aid has a mixed record of success. It might seem counterintuitive that aid could hinder a country's development rather than accelerate it, but it may. Aid to developing countries comes from a variety of sources, often with *strings*, conditions, attached. During the Cold War, aid from international institutions and governments was targeted to the strategic advantage of global powers. Aid came with few guidelines relative to development outcomes and more to UN votes. Much of the aid went directly into the pockets of dictators and their *cronies* who were appointed to oversee projects and whose lack of expertise doomed the projects to inefficiency or failure.

Geostrategic and commercial interests of donor nations continues to drive much foreign aid. If the European Union were to prioritize poverty reduction and human welfare, over 70 percent of that aid would have to be redirected to the poorest nations (Bigsten et al. 2011). National security seems to be the priority of U.S. foreign aid. During 2019, over 35 percent of U.S. foreign aid went to just 10 nations. Since the Russian invasion, Ukraine has been the largest recipient. (See <https://www.foreignassistance.gov/cd> for a list of aid by country.)

In 1995, the UN World Summit for Social Development adopted a foreign aid goal for rich nations equal to 0.7 percent of their GNI. Only a few nations have met this goal.<sup>14</sup> Although Americans believe that the United States spends about 25 percent of its budget on foreign aid, in reality it has hovered under 0.2 percent of GNI for decades. About a fifth goes directly to foreign governments, a fifth to U.S. aid organizations, 34 percent to multinational aid organizations (such as UNICEF, World Bank, IMF), and the rest elsewhere (Ingram 2019).

**Transparency.** Recipient government reporting of how aid is used needs to be transparent to ensure that money is reaching the intended beneficiaries and is not channeled through corrupt

officials or to less poor countries. Administrative and other cost reports of the agencies must also be transparent. To be held accountable, donors must be transparent in every step of the processes for giving aid and evaluating the results of the aid.

Publish What You Fund (PWYF) rates aid donors on transparency. The 2022 evaluations found significant improvements over the 10-year history of the index, with the average index score rising from 40.3 to 61.8 (although the 2020 score was 63.4) and improvement in all five transparency components (comprised of 35 indicators); finance and budget, joining-up development data, organizational planning, project attributes, and performance. Donors are reporting more and better quality data, with nearly all donors using the International Aid Transparency Initiative (IATI) Standard. Several areas remain problematic, while publication of objectives is improved, publication of results and of procurement were less available or harder to access (Tilley 2020). Like similar evaluation and watchdog organizations, PWYF exercises considerable normative power; of the 50 agencies in the 2022 Index, good (21) or very good (10) and only in poor (5) or very poor (3), the remainder ranked fair (11). Despite the normative pressure, the bottom third of aid agencies have shown little improvement over the course of the last three indices, 2018, 2020, and 2022 (Tilley and Jenkins 2022).

Transparency is important for accountability but also to enhance learning and improve the results of aid programs.

**Fragmentation.** Unlike the specialized bureaucracies and private corporations that fulfill one or a few functions, aid agencies tend to split their assistance among too many projects and too many sectors. Regardless of size, donors split among many projects, and this leads to almost insignificant worldwide flows. Following the *trendy* projects is one mechanism that contributes to this (Easterly and Pfutze 2007).

There has also been an explosion in the number of donors, now including bilateral and multilateral agencies and private organizations and foundations, that have little to do with one another in sharing information, planning, or coordinating activities. Specialization and coordination would concentrate focus, streamline processes, create efficiencies, and reduce overhead costs. Ironically, small African countries with only small amounts of aid need coordination the most but are subject of the most fragmentation.

**Selectivity.** It goes without saying that aid to countries that are not poor or to corrupt dictators does not stimulate inclusive growth. Countries that are not free (about one third) or partly free receive about 80 percent of aid. Easterly and Pfutze (2007) found that aid donors do not respond to changes in the level of corruption and aid goes to corrupt countries.

Aid agencies may be planning reforms in delivering aid to countries that are not free or have corrupt dictators. They may also be operating on the principle that beneficiaries in these countries need the aid the most. Not all aid goes to the least developed countries, In 2021, least developed countries received US\$ 33 billion, other low income countries 28 billion, lower middle 38 billion, and upper middle 21 billion (OECD 2022). When aid is directed at middle-income countries, it may be perceived as nearing a tipping point where aid may make a significant difference in improving the quality of life. However, as Easterly and Pfutze (2007) noted, when aid is directed at “allies” who do not need it or are not spending it to benefit their poor, it is a misuse of aid.

Aid that requires recipients to buy goods and technical assistance from the donor country is a less effective form of aid. Aid that requires recipients to purchase food or goods from the donor country amounts to a subsidy to industries in the donor country. This frequently happened with food aid; the surplus product of the donor is *dumped* into the developing nation,

often undermining local agricultural efforts. Many food programs now provide aid to support local producers. This spurs development and enhances inclusive growth. Technical assistance can pose a similar problem when given to promote the donor's interests. If it does not reap long-term benefits for the recipients, it is not aid (Easterly and Pfutze 2007).

Working closely with the beneficiaries, using aid to empower them is one of the most important criteria to affect long-term results. Accountability to the beneficiaries is different from that to donors. It entails constant feedback and participation of the beneficiaries in the development efforts. This is recognized by most aid agencies. However, adopting formal accountability measures has not kept pace with the intent. The Humanitarian Accountability Partnership (HAP) promotes standards for accountability, quality management, and transparency. About 100 aid agencies joined from its creation in 2003 to 2013. In 2015, it dissolved and merged with People in Aid to form the CHS Alliance (Core Humanity Standard), which now has about 126 members committed to improving practices and verifying the quality and results of their efforts through 62 indicators. Their data is available on their website, [chsalliance.org](http://chsalliance.org) (CHS Alliance 2022).

### Grant More Debt Relief

Debt has crippled many nations. For some countries, much of the debt incurred was seized through kleptocracy or crony capitalism. Like having a credit card where a person pays only the interest on the debt or only a minimal amount on the principal, the original debt grows far beyond the original loan. Servicing the debt consumes resources that could be better spent on human capital or physical capital improvements. This is a transfer of wealth from poorer to richer nations (or to the international institutions). Renegotiating the terms of the debt or some level of debt forgiveness is overdue.

In 1996, the IMF and World Bank launched a debt relief program for 39 Heavily Indebted Poor Countries (HIPC). It is supplemented by the Multilateral Debt Relief Initiative (MDRI) funded by other lenders. The program does not include all the heavily indebted countries. Nigeria, for example, is not on the list because it is not *poor* enough. Somalia was ineligible because it was too far in arrears but became eligible in March 2020. As of January 2018, 37 countries had met the criteria for debt reduction. They received over US\$ 1 billion of debt relief from the HIPC and MDRI relief programs. To qualify, countries needed to make and sustain progress toward achieving the Millennium Development Goals and reform of governmental and economic policy. The debt relief allows them to put more money into poverty reduction efforts (World Bank 2018). Expanding relief to the countries approved for relief and the criteria for which countries can qualify would make more money available for development. Net debt relief in 2021 was US\$ 545 million (OECD 2022).

The World Bank (Estevão 2022) reports that following the COVID pandemic, developing countries may not be able to finance their debt and many others are facing severe impacts on human development that required more financing to overcome. Many took on larger debt, subject to variable interest rates, pushing total indebtedness to a 50-year high. By the end of 2020, low- and middle-income countries owed 5 times as much debt to commercial creditors than to the bilateral aid organizations with rates that could rise rapidly and steeply, just like credit card debt.

In response, the World Bank urged the G20 to set up the Debt Service Suspension Initiative (DSSI), which it established in 2020. By suspending debt payments, countries could focus resources on fighting the pandemic and providing needed services. US\$ 12.9 billion of debt was suspended by the end of 2021. Private creditors were also asked to participate, only one did (World Bank 2022c).

The debt problem faced by developing countries is complex and severe. Serious reforms are needed. Sri Lanka, for example, declared bankruptcy in April 2022, due to burdensome debt and the COVID crises, although the IMF had promised a bailout of US\$ 2.9 billion. When it failed in its attempts to negotiate a sufficient restructuring of its debt (most of which is owed to China), the IMF refused to release its second installment of relief, due in September 2023 (Francis 2023).

## CONSIDER THIS

### PROVIDING ACCESS TO TECHNOLOGY—AS SIMPLE AS A MOBILE PHONE

In most of the developed world, we take mobile phones for granted. In the developing world, a mobile phone can make a world of difference. According to the U.S. Agency for International Development (2015):

- An increase of 10 percent in mobile penetration can raise the GDP of a developing country as much as 1.2 percent.
- In Tanzania, mobile phones are used to deliver educational content to remote areas.
- Mobile phones are used by the Mobile Alliance for Maternal Action to deliver health information to pregnant and new mothers.
- When used to pay employees, mobile phones can cut out graft and corruption, as demonstrated in Afghanistan.
- Mobile phones provide access to markets, delivering important and timely information to farmers and buyers.
- Mobile phones can be used for financial services to people not served by the regular banking industry.
- By providing polling and voting information, mobile phones strengthened democracy in Haiti and Tunisia.

## The Private Sector

The private sector recognizes the importance of the bottom of the pyramid for corporate growth and profit in the new millennium. Although poor, that segment of the wealth pyramid has the most potential for market growth. Results of an online search of “bottom of the pyramid” brings up myriad business articles and books such as “The Fortune at the Bottom of the Pyramid.” They contain money-making strategies for producing for and selling to the billions of the world’s poor living on less than US\$ 2 a day—the last remaining untapped market. Whether or not the poor can be served in partnership with global capital—meeting genuine needs at reasonable cost—is an important question.

### Secure Financial Services: Microfinance

Whether in developing or developed countries, the poor do not have access to the same financial services and opportunities as middle and upper classes. Without banks, checking accounts, or credit—the basics of finance—moving beyond the lowest levels of economic activity is difficult.

Not everyone needs thousands of dollars to start a successful business. One or two hundred dollars may be all that a person needs to get a business off the ground. Without collateral or a credit history, getting even a few hundred dollars can be impossible. Grameen Bank, for which its founder Muhammad Yunus received a Nobel Prize, provides loans, savings plans, checking

accounts, and financial education to people who cannot qualify for conventional loans and in areas that are poorly served by conventional financial institutions.

Since its founding in 1976, Grameen Bank has loaned more than US\$ 19 billion to millions of people, primarily women, to start *cottage* industries, entrepreneurial activities that can lift a family out of poverty. The microloans range from about \$100 to no more than about \$1,500. While most people consider the poor as too huge a default risk to loan to them, Grameen Bank has a repayment rate close to 99 percent. The total month-to-month default rates at conventional banks range from about 2 percent to 7.5 percent (Federal Financial Institutions Examination Council 2016).

Grameen Bank began with donor funds but halted donations in 1995 and is self-reliant. Its operations and loans are paid for by the interest received on the repayment of loans. It is not a commercial bank but has shown a profit in all but 3 years of its operation.

The Grameen family expanded to include related services: The trust's mission is to replicate the Grameen microfinance institutional model. By 2007, it was operating in 37 countries, including some developed countries. The fund expands its operations to small and medium-sized enterprises in Bangladesh. Grameen Telecom and Grameenphone make cellular service and mobile phones more available to the poor and in villages in Bangladesh. These are critical tools for conducting business. The Grameen Foundation, based in Washington, DC, works with partner microfinance institutions around the world.

Checking and savings accounts and financial literacy are important components of the Grameen Bank. Loan recipients attend financial literacy classes. A checking account and deposits into a savings account are compulsory. The Grameen Banks become community enterprises, and member-borrowers assume ownership.

Most important, the banks are effective. Microloans buy everything from sewing machines, to livestock, to chickens, to refrigerators, to trucks—whatever people need to turn their business plans into reality. People receiving the loans create jobs for themselves and usually for their families, with a spillover into the larger community. For example, a study of 40 women clients of a microbank in South Asia found that the women employed their husbands. This took their husbands out of the local job market, making jobs available to others. This caused wages to increase. As a result, 40 microloans created 80 new jobs and resulted in 120 people being employed (UN Population Fund 2006).

There are more than 10,000 microfinance institutions around the world today (CFI Team 2020). Grameen America was founded in 2008, as of September 2018, it had 100,000 borrowers across 20 branches in 13 cities and had distributed over US\$ 1 billion in loans (Schaberg et al. 2019). Borrowers must form groups of five to join but receive individual loans. They are required to participate in group training and meet weekly with Grameen staff. Ninety six percent of borrowers were operating their own business. Grameen America is run on the Bangladesh borrower-member model, providing savings accounts, financial literacy education, and business consultation. Loans are less than US\$ 50,000, require weekly repayments, and post a 15 percent annual interest rate. Data collected by the Aspen Institute and MRDC show that Grameen America creates jobs and increases income (Dewan 2013; Schaberg et al. 2019).

### Patient Capitalism

Can capitalism accomplish what philanthropy tries to accomplish? Capitalism traditionally means getting the biggest return on investment in the shortest time possible. This can lead to disastrous results such as stock trades that create money for stockbrokers and maybe the investor

but create no value. This ethic has also led to *hot money* flowing quickly into developing countries and out again, speculating on currency exchange rates and leaving chaos in its wake.

Patient capitalism is an investment strategy developed by Jacqueline Novogratz. In 2001, she founded the Acumen Fund on the conviction that investing in worthwhile projects was better than fast cash that produced no value. She looks for investments that will make a profit and contribute social value to their communities. Rather than the short-term horizon of traditional investing, the Acumen Fund has a long-term horizon. Profit might take some time to realize, hence the need for patience. Over 20 years, Acumen invested US\$ 146 million in 155 companies, affecting the lives of 400 million people. For every dollar invested, they are on track to get 91 cents back (Acumen Fund 2021).

In contrast to simple charity, the Acumen Fund finds long-term solutions to empower the poor. The fund provides long-term loans or takes an equity interest in early-stage companies. Where traditional investors avoid projects for the poor or anticipate a long-term rather than short-term profit, Acumen looks for them. Acumen focuses on specific areas that correspond to the critical goods and services needed by the poor—health, agriculture, and energy, are the sectors with the greatest number of projects; education, workforce development, housing, and clean water are among the others. When a project has demonstrated success, it is scaled up and applied in more areas. Acumen does not fund unsustainable projects, a problem of traditional aid and philanthropy.

Unlike the microloans of Grameen Bank and other microfinance institutions, the Acumen Fund investments range from about US\$ 300,000 to 2.5 million. Acumen does not expect a high return, but it does expect a return, financial as well as social, in about 7 years to 10 years. Acumen does take donations and will partner with governments, corporations, or agencies as long as doing so will benefit its clients.

In 2004, Acumen invested US\$ 600,000 in a startup called “WaterHealth International” to provide clean water to rural Indians. In the first year, WaterHealth opened two new systems, but neither met its deadline and both went over budget. With help from experts at Acumen, WaterHealth redesigned and found more efficient methods and built 10 new systems a year later. This caught the attention of other investors, and WaterHealth raised US\$ 11 million from private investors. It now operates more than 650 safe water systems and more than 5 million people have safe water because of its systems. WaterHealth is partnering with Coca-Cola, the American soft drink company, and Diageo, a British alcoholic beverage company, with a venture called “Safe Water for Africa.”

Hundreds of Acumen Fund investments affect millions of lives, including teacher training for low-cost primary and secondary schools in India, data analytics so that the poor can access financial services through cell phone technology, small holder organic farmers who now bring organic produce into cities, and dairy farmers who now access markets through a dairy company.

### Corporate Social Responsibility

Corporations responded to criticisms related to their exploitation of people and the environment by developing a variety of strategies to keep them mindful of social and environmental sustainability in their activities. The “Global Compact” facilitated by the UN is the largest corporate responsibility initiative, with more than 12,000 companies operating in 160 countries and more than 3,000 members from civil society, labor, philanthropy, and academia (UN Global Compact 2021).

In signing the compact, businesses agree to 10 principles: to uphold human rights; recognize the right to collective bargaining; eliminate forced labor, child labor, and discrimination in labor; be cautious concerning environmental challenges; promote environmental responsibility

and environmentally friendly technologies; and work against corruption, including bribery and extortion. The strategy also includes promoting awareness and activity in achieving the Sustainable Development Goals.

Member corporations submit annual progress reports detailing their efforts on behalf of the 10 principles, and groups such as civil society organizations report on their engagement activity—how they helped advance the initiatives. Companies are rated as advanced, meaning that they are implementing advanced criteria and best practices; active, meaning that they meet minimum requirements; or learners, meaning that they do not meet one or more minimum requirements. As of early 2017, there were more than 2,000 advanced companies, 25,839 active companies, and 4,053 learners rated by a panel of peer companies, multiple stakeholders, and an independent auditor. As with similar ratings, they exert normative pressure for members to abide by the guidelines.

### World Economic Forum on Africa: Big Business and the Bottom of the Pyramid

The annual meeting of WEF brings business, political, technology, and NGO leaders from around the world. In 2008, there was an overriding concern: the recession of 2007–2008. Bill Gates delivered a strong message to the WEF: “There are two great forces—self-interest and caring for others”; serving the poor is not always profitable, he argued, but it was in the self-interest of corporations to do good work. It enhances their companies’ reputations, carries them goodwill with the public, and attracts better employees. The world is not getting better fast enough and is not getting better for everyone, he admonished. They, the corporate leaders, should do something about it.

With a global economic crisis, the people at the bottom of the pyramid looked attractive to corporate giants as the most rapidly growing market (recall the rapid rise of many from extreme poverty to low income) in the world. People who had what they needed would not be buying for a while because consumer demand was depressed. But the poor needed everything. It was clearly in the interest of big business that year to *do good*, not just for the public relations and positive press that it would bring, as Gates suggested, but also for profit.

Thinking differently about opportunities among the poorest means thinking differently about them. First, the poor are to be treated with respect. The poor want high-quality goods, not stripped-down versions of goods served to others. Researchers report people commenting that “we have to look good. Otherwise, people will not take us seriously. . . . The teachers will write my children off as poor and not worthy of a good education” (WEF 2009). Thinking about providing access, such as renting rather than buying goods, monetizing assets such as a good reputation to get a loan, and educating about products rather than acting as authorities, can help to leverage the capital of the poorest (WEF 2009).

While the intersection of poverty and business interests remains a concern of the WEF, the 2022 meeting confronted a different crisis, due not only to COVID and the war in Ukraine but also environmental and governance concerns. Borge Brende, the President of the WEF called this period in time “the most complex geopolitical and geo-economic situation in decades,” saying that the age demands a new era of “global responsibility and cooperation.” Energy security, with the goal of diversifying the global energy mix by developing decarbonized energy sources and expanding each country’s cohort of partners, is of utmost importance. Energy sits at the intersection of global issues; the devastating effects of climate change and energy supply shocks, on the entire global population, but especially on the poor—many of whom still lack access to electricity and/or clean cooking fuels (WEF 2022a).

## Closing the Gap through Fair Trade

Goal 17 of the Sustainable Development Goals is to “promote a universal, rules-based, open, nondiscriminatory and equitable multilateral trading system under the World Trade Organization” (UN 2022). Global trade has lifted many people out of poverty. It has closed the gaps among some countries, decreasing world inequality. Trade can bring societies into the global economy, allowing for growth. Different countries or regions within countries have different capacities to take advantage of trade to boost growth. A World Bank study (Farole 2013) of 28 countries found that regional inequalities within countries were growing in 18 of the countries, incomes were converging in only 3 countries, and inequality was holding steady in 7 countries.

Free trade is not always fair trade. Fair trade is essential for developing societies to thrive. The fair trade movement began in the 1940s when two U.S. not-for-profits began importing handicrafts directly from poor producers in Latin America. Now the movement is global with grassroots organizations, federations of organizations, and suppliers, producers, importers, and exporters the world over. In common, they subscribe to the International Fair Trade Charter, that following the Sustainable Development Goals encompasses concerns for creating better opportunities for disadvantaged producers, fair prices, gender equity, sustainability, better working conditions, and transparency and accountability.

The World Fair Trade Organization (WFTO) is a global network of regional and national fair trade organizations, more than a million small-scale producers, and 410 members, primarily organizations and networks with multiple smaller organizations within, according to its 2022 Annual Report (WFTO n.d.). There are thousands of fair trade stores throughout the developed world selling their products. Those are the tip of the iceberg. Close to 1 million (965,700) livelihoods are supported along the supply chain from producer through to stores. Nearly three quarters of the workers, artisans, and farmers are women. The principles of fair trade are inclusive in ensuring that all potential effects of trade are addressed. Some are essential for membership; continuous improvement is expected in the others. WFTO monitors and certifies enterprises that abide by the 10 WFTO principles; those that comply can use the WFTO mark.

Fair Trade International, another globally recognized fair trade network cites studies conducted over a 5-year period in its 2020–2021 Annual Report. They found that fair trade realized significant progress in many areas.

- Increased incomes, well-being and resilience among farmer and worker households;
- Building stronger, well-managed democratic organizations for small-scale producers;
- Improving decent work for workers, including labour conditions and freedom of association of workers; and
- Contributing to greater environment sustainability and resilience to climate change. (Fairtrade International 2021)

Fair trade organizations and movements raise consciousness concerning not only the plight of the disadvantaged but also concerns of everyone for a fair and sustainable world, for putting social goals ahead of profit.

## SUMMARY

Inequality, both among and within nations, limits people's capacity to fulfill their life chances. The consequences of inequality harm the entire society. They undermine trust and confidence in government, and a society cannot thrive without allowing all its members to achieve their physical, intellectual, recreational, and occupational potential. At the level of the individual, inequality erodes the health of even those at the upper end of the economic hierarchy.

The roots of inequality go back hundreds of years but can be significantly mitigated by reforms in the institutional structures that shape daily life. International governmental and nongovernmental agencies and organizations, national governments, the corporate sector, and philanthropies all have the potential and responsibility to create the changes to establish a just world. Increasing inequality is undermining the stability of societies and the world. More equal societies benefit everyone.

Fighting poverty and inequality also depends on advances in the other problems discussed in this book. Climate change and water shortages, environmental destruction, conflict and discrimination, and lack of adequate food and health care are among the myriad issues that contribute to inequality and poverty and are made worse by poverty and inequality.

## DISCUSSION

1. How would you describe inequality in the world to people who have not studied this? What are the most important facts and concepts for them to understand? Try to answer this question in less than 200 words.
2. Complete a case study of the life chances of children in a poor country. Describe their daily life. What are their prospects for the future? How might this vary for children of different social classes in the society?
3. What is the foreign aid budget of the United States or your home country? To which countries does most of the money go? Can you determine for what purposes? For data on the United States, you can refer to the website [ForeignAssistance.gov](http://ForeignAssistance.gov).
4. Which proposals do you think would have the most impact on increasing people's life chances and decreasing poverty?
5. What level of inequality is acceptable within and among countries? What criteria do you use to decide this?

## ON YOUR OWN

1. Find the Gini ratio for a random selection of countries—10 from each category from very high, high, medium, and low levels of development. Plot them on a scatterplot or a cross-tabulation table. Do you see a relationship between level of development and inequality? If you can use Excel or another statistical package such as SPSS or STATA, run a statistical analysis using the entire dataset to test your observation and the significance of the relationship you observe.

Are any of the countries outliers; with more or less inequality than you would expect? What do you think accounts for their placement?

2. Examine the lives of children globally. How do infant and child mortality rates vary across countries? Educational levels? Health problems from preventable illnesses? You can use the “Human Development Index” or “State of the World’s Children” report for your research.

3. What provisions does the UN Declaration of Human Rights make concerning work? What constitutional provisions for work-related matters are specified in constitutions? The Constitute Project also allows for thematic investigations. It locates constitutions and the specific articles related to specific provisions.

<https://www.constituteproject.org/>

Click on “Explore Constitutions.”

Type “work” into the search box, and provisions related to work will appear.

Find constitutional provisions related to each of the items.

Which do you find particularly important?

The Comparative Constitutions Project enables thematic explorations of national constitutions.

<http://comparativeconstitutionsproject.org/>

Under “Data and Analysis,” find “Data Visualizations.”

Here you can find the number and percentage of constitutions that mention work.

Move the slider to the most recent date and scroll through the items to select those related to work.

Interactive site: maps and tables, <http://www.conferenceboard.ca/hcp/hot-topics/worldinequality.aspx>