World Poverty

Yesterday I ate that macaroni from the garbage with fear of death, because (I remembered the) little black boy. . . . Someone had thrown meat into the garbage, and he was picking out the pieces. He told me "Take some, Carolina. It's still fit to eat." He gave me some, and so as not to hurt his feelings, I accepted. I tried to convince him not to eat that meat, or the hard bread gnawed by the rats. He told me no, because it was two days since he had eaten. He made a fire, and roasted the meat. His hunger was so great that he couldn't wait for the meat to cook. He heated it and ate. So as not to remember that scene, I left thinking: I'm going to pretend I wasn't there. This can't be real in a rich country like mine. . . . The next day I found that little black boy dead. His toes were spread apart. The space must have been eight inches between them. He had blown up as if made out of rubber. His toes looked like a fan. He had no documents. He was buried like any other "Joe." Nobody tried to find out his name. The marginal people don't have names.

——CAROLINA MARIA DE JESUS, IN *CHILD OF THE DARK*[1]

7-1

Less-Developed Countries of the World

TABLE 7-1	THE LESS-DEVELOPED COUNTRIES OF THE WORLD, BY REGION

Latin America and the Caribbean	Africa		Asia
Argentina	Algeria	Liberia	Afghanistan
Barbados	Angola	Libya	Bahrain
Belize	Benin	Madagascar	Bangladesh
Bolivia	Botswana	Malawi	Bhutan
Brazil	Burkina Faso	Mali	Cambodia
Chile	Burundi	Mauritania	China
Colombia	Cameroon	Mauritius	East Timor
Costa Rica	Central African Rep.	Morocco	India
Cuba	Cape Verde	Mozambique	Indonesia
Dominican Republic	Chad	Namibia	Iran
Ecuador	Comoros	Niger	Iraq
El Salvador	Congo, Dem. Rep. of	Nigeria	Jordan
Grenada	Congo, Rep. of	Rwanda	Korea, Dem. Rep. of
Guadeloupe	Côte d'Ivoire	Senegal	Korea, Rep. of
Guatemala	Djibouti	Sierra Leone	Kuwait
Guyana	Egypt	Somalia	Laos
Haiti	Equatorial Guinea	South Africa	Lebanon
Honduras	Eritrea	Sudan	Malaysia
Jamaica	Ethiopia	Swaziland	Mongolia
Mexico	Gabon	Tanzania	Myanmar
Nicaragua	Gambia	Togo	Nepal
Panama	Ghana	Tunisia	Oman
Paraguay	Guinea	Uganda	Pakistan
Peru	Guinea-Bissau	Zambia	Papua New Guinea
Suriname	Kenya	Zimbabwe	Philippines
Uruguay	Lesotho		Qatar
Venezuela			Saudi Arabia
			Singapore
			Sri Lanka
			Syrian Arab Republic
			Thailand
			United Arab Emirates
			Vietnam
			West Bank and Gaza
			Yemen

Source: United Nations Development Program, *Human Development Report 2006* (New York: Oxford University Press, 2006).

Poverty Statistics

- Some 2,600 million people live on less than $2 per day

- In the poorest countries of the world:
  - 43% of children under age five are stunted
  - Over 12 percent die before reaching age five
  - Average life expectancy is 59
  - 50 percent of women and girls over age 15 cannot read and write

Gross National Income (GNI)

- Income generated from production of a nation's output

- Identical to gross national product (GNP)

- Broadest of all income concepts

- Focuses on more concrete idea of people's incomes rather than nation's production

GNI per Capita

- Gross national income per person on average

$$\frac{\text{Total GNI}}{\text{Total Population}}$$

TABLE 7-2	GROSS NATIONAL INCOME (GNI) PER CAPITA FOR THE RICHEST, POOREST, AND SELECT COUNTRIES IN BETWEEN, 2005		
Country	GNI per Capita ($)	Country	GNI per Capita ($)
Norway	59,590	Iran	2,770
Switzerland	54,930	Colombia	2,290
Denmark	47,390	China	1,740
United States	43,740	Bolivia	1,010
Mexico	7,310	Pakistan	690
Lebanon	6,180	Vietnam	620
Chile	5,870	Cambodia	380
Botswana	5,180	Zimbabwe	340
Costa Rica	4,590	Liberia	160
Argentina	4,470	Congo, Dem. Rep.	130
Russia	4,460	Ethiopia	120
Brazil	3,460	Burundi	100

Source: World Bank, World Development Indicators 2007, http://www.worldbank.org.

Economic Growth

- Growth in GDP per capita over time, usually several years

- Calculated two ways:
  - As average annual growth rate of real GDP
  - As average annual growth in GDP minus average annual population growth, over some time period

Average Annual Economic Growth Rates

	AVERAGE ANNUAL GROWTH RATES OF GDP, POPULATION, AND GDP PER CAPITA, SELECTED LESS-DEVELOPED COUNTRIES,* 2000–2005		
TABLE 7-3			
Country	Average Annual Growth of GDP (%)	− Average Annual Growth of Population (%)	= Average Annual Growth of GDP per Capita (%)
Chad	14.5%	3.5%	11.0%
Sierra Leone	13.7%	4.2%	9.5%
China	9.6%	0.6%	9.0%
Mozambique	8.6%	2.0%	6.6%
Vietnam	7.5%	1.1%	6.4%
Uruguay	1.0%	0.7%	0.3%
Burundi	2.2%	3.1%	−0.9%
Haiti	−0.5%	1.4%	−1.9%
Côte d'Ivoire	−0.5%	1.6%	−2.1%
Central African Republic	−1.4%	1.3%	−2.7%
Zimbabwe	−6.1%	0.6%	−6.7%
West Bank & Gaza	−13.3%	4.1%	−17.4%

*Includes the highest, approximately zero, and lowest average growth rates of GDP per capita worldwide.

Note: The average annual growth rate of GDP (first column) minus the average annual growth rate of the population (second column) equals the average annual growth rate of GDP per capita (third column).

Source: Calculated with data from the World Bank, *World Development Report 2007* (Washington, DC: World Bank, 2007).

Problems in Measuring Well-Being

- Use of GNI and GDP data ignores issue of **composition of GDP**
  - Items of production of which GDP consists

- **Distribution of GNI**
  - Distribution of income between different income groups
    - Income is never distributed equally; therefore, high value of GNI per capita really tells us nothing about standard of living of most of country's residents, because it tells us nothing about distribution of this income

Income Distribution

- Two ways to measure:
  - Share of country's total income that goes to each fifth of population
    - Lorenz curve
  - Share of total income that goes to poorest 20 percent of population

- Measures to improve equality:
  - Elimination of price distortions to ensure that certain groups receive more adequate incomes
    - Raising of agricultural prices would lead to higher incomes for low-income farmers, for example
  - Higher taxes on wealth and income of high-income people
    - Government might use this revenue to improve basic services to poor
  - Redistribution of **assets** (property that is owned, such as land)
    - Greater equality in ownership of income-earning assets is often fundamental to ensuring greater equality of incomes

Income Distribution in Selected Countries

TABLE 7-4	SHARE OF TOTAL INCOME TO THE POOREST 20 PERCENT OF THE POPULATION, FROM LOWEST TO HIGHEST SHARE, SELECT COUNTRIES[a]

Country	Share[b]
Bolivia	1.5%
Central African Republic	2.0
Botswana	2.2
Brazil	2.6
Chile	3.3
South Africa	3.5
Costa Rica	3.9
Zimbabwe	4.6
Iran	5.1
China	4.7
Russia	6.1
Cambodia	6.9
Burkina Faso	6.9
Vietnam	7.5
Laos	8.1
Indonesia	8.4
Germany	8.5
Egypt	8.6
India	8.9
Bangladesh	9.0
Ethiopia	9.1
Pakistan	9.3
Finland	9.6
Norway	9.6
Czech Republic	10.3
Japan	10.6
Azerbaijan	12.2

[a]Data are for the most recently available survey years.
[b]Several countries use expenditure data rather than income. This generally understates income inequality.

Source: World Bank, *World Development Indicators 2007*, http://www.worldbank.org.

Economic Development and Standards of Living

- **Economic development**
  - Multifaceted process that involves improvements in standards of living, reductions in poverty, and growth in GDP per capita

- Many economists use measures that directly indicate actual well-being of people of less-developed countries rather than rely on income or output data alone
  - Best indicators of living standards:
    - **Average life expectancies**
      - Age to which baby born in particular year can be expected to live
    - **Infant mortality rates**
      - Number of babies who die within first year of life per 1,000 live births

Average Life Expectancy and Infant Mortality Rate

- Avoid income distribution problem with respect to GNI per capita
- Avoid measurement problems inherent in income and output statistics
  - Life expectancies, for example, do not need to be adjusted for inflation, exchange rates, market prices, etc.
    - These measurement problems sometimes distort comparisons of income and output between different countries
- Measure end results of government programs and state of economy
- Easily conceptualized by policymakers and populace alike

Life Expectancy and Infant Mortality Rate Statistics

T A B L E **7 - 5**	**LIFE EXPECTANCY AT BIRTH AND INFANT MORTALITY RATE,[a] SELECT LESS-DEVELOPED COUNTRIES, IN ORDER OF HIGHEST LIFE EXPECTANCY TO LOWEST, 2004**	

| Country	Life Expectancy (years)	Infant Mortality Rates
Costa Rica	79	11
Argentina	75	16
Mexico	75	23
Lebanon	73	27
Brazil	71	32
China	71	26
Vietnam	70	17
Kenya	48	79
Namibia	47	47
Somalia	47	133
Tanzania	46	78
Congo, DPR	44	129
Ethiopia	42	110
Swaziland	42	108
Sierra Leone	41	165[b]
Zimbabwe	37	79
Lesotho	36	80
Botswana	35[b]	84

[a]Number of infant deaths (under age 1) per 1,000 live births.
[b]Worst in the world.

Source: World Bank, *World Development Indicators 2006,* http://www.worldbank.org.

Newly Industrializing Countries (NICs)

- Singapore, South Korea, Taiwan, and other countries achieving rapid growth through industrialization
  - Characteristics of success:
    - Well-educated labor force
    - Fairly homogeneous, entrepreneurial culture
    - International conditions conducive to success at the time of early development
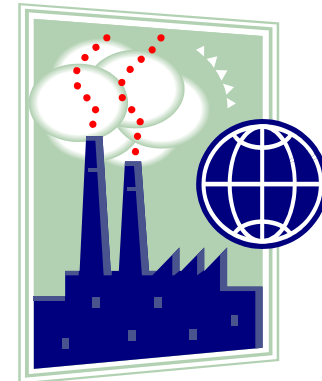
Capital-Intensive Technology vs. Labor-Intensive Technology

- **Capital-intensive technology** utilizes large amounts of capital

- **Labor-intensive technology** utilizes large amounts of labor

  – Can utilize large numbers of people who would otherwise be unemployed

- Key to development often lies in agricultural sector

Agricultural Development

- Development of agricultural sector in most less-developed countries is now recognized as extremely important:

  1. Most of world's poor live in agricultural sector; hence, efforts to benefit this sector will most directly benefit needy as well

  2. Agricultural sector typically offers greatest potential for development

  3. Techniques also tend to be far more labor-intensive in agriculture than in modern industry, thereby offering employment for larger numbers of people

  4. Agricultural sector most directly addresses most vital need of all people, that of food security

# Access to Inputs, Extension, and Markets

- For agricultural development to occur and food security to be achieved, both government of developing country and international community must fulfill important roles:
  - Land must be redistributed in a manner that allows more appropriate income distribution and maximum incentives for agricultural production
  - Farmers must have access to necessary seeds, fertilizer, irrigation, animals, structures, and vehicles
  - Financing must be arranged for masses of poor farmers
  - Farmers will require extension services if they are to use increasingly complex but more productive farming techniques and inputs
  - Farmers will also require reliable transport and market facilities

Price Ceilings

- Legalized maximum prices for goods or services

- One goal is to keep prices of basic necessities low for poor consumers
  - Although many urban people may be poor, urban dwellers tend to have higher incomes and lower poverty rates than rural residents do
    - In process of holding down prices for better-off group, government also keeps low agricultural prices received by farmers
      - Results in two serious problems:
        1. Rural incomes fall and poor farmers become poorer
        2. Incentives for agricultural production are reduced

Price Ceilings (cont.)

FIGURE 7-1 | LDC PRICE CEILINGS ON RICE
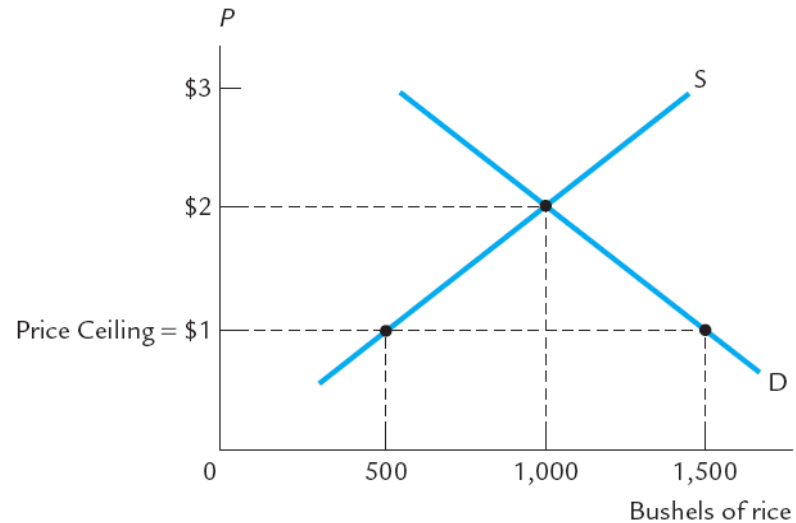
At the market equilibrium price of $2 per bushel, quantity demanded equals quantity supplied at 1,000 bushels of rice. When a price ceiling of $1 per bushel is imposed, quantity demanded increases to 1,500 bushels, while quantity supplied falls to 500 bushels. A shortage of rice results, and the producer incomes fall.

International Role

- International community must assist low-income countries to meet agricultural development and food security needs
  - Must develop systems to ensure that adequate and timely food aid will be available to countries in emergency situations
    - Must be cautious about continuing to provide food aid in nonemergency situations
      - Ongoing food aid leads to dependence by less-developed countries and pushes down food prices, thereby lowering incentives for local food production
  - International community might also enact measures to ensure greater stability of world food prices
    - Establishment of international **buffer stock**
      - Mechanism for stabilizing agricultural prices, whereby an agricultural product is purchased and placed in storage during years of high production and released from storage and sold during years of low production
  - Must also undertake efforts to ensure that bottlenecks of inadequate transport, shipping, ports, and storage facilities are resolved

Human and Natural Resource Development

- **Investment in human capital**
  - Spending designed to improve productivity of people

- Human investment programs have not only an immediate benefit, namely, improved standard of living of beneficiary, but also long-term payoff in development of more productive labor force and better-educated citizenry

Human and Natural Resource Development (cont.)

- Education holds most promise
  - Numerous studies have linked education (primarily of women) to widespread benefits:
    - Reduced infant mortality rates
    - Improved child nutrition
    - Later age at marriage
    - Lower birthrates
    - Greater likelihood that children will be educated

- Development economists are also recognizing need for safe and convenient water supply

- Steps are also being taken to stop **deforestation** (clearing of forested areas in unmanaged fashion) and **desertification** (encroachment of desert on previously fertile land)

Women's Role in Development

- Government and international policies alike have neglected women in developing countries
  - Third World women have lower standards of living than male counterparts
  - Women typically have literacy rates far below those of men
  - High **maternal mortality rates**
    - Number of deaths of women for pregnancy-related reasons per 100,000 live births
  - Women least likely to receive agricultural extension services, agricultural credit, and access to agricultural inputs, even though primarily responsible for producing most **subsistence food crops**

Population Growth

- Many people believe that high population growth is a problem in many low income countries because more people means more sharing of already limited resources

  – If we consider population to be a problem only relative to resources, then we must realize that less than one-fifth of world's population in high-income countries consumes over three-quarters of world's goods and services

Urbanization

	POPULATION OF THE WORLD'S 10 LARGEST CITIES, 2005

TABLE 7-6

Rank	Cities in Order of Population Size	Population (in millions)
1	Tokyo, Japan	35.3
2	Mexico City, Mexico	19.2
3	New York, United States	18.5
4	Sao Paulo, Brazil	18.3
5	Mumbai (Bombay), India	18.3
6	Delhi, India	15.3
7	Kolkata (Calcutta), India	14.3
8	Jakarta, Indonesia	13.2
9	Shanghai, China	12.7
10	Los Angeles, United States	12.1

Source: World Bank, *World Development Indicators 2006*, http://www.worldbank.org.

Underemployment

- One cause of urban poverty is high level of unemployment and **underemployment**

  – People work limited hours or with low productivity

  – Much underemployment occurs in urban **informal employment sector**

    • Employment sector consisting primarily of service occupations in an unofficial setting

AIDS

- Serious problem in many countries, but has reached epidemic proportions in many countries of Africa

  – Has replaced malaria as leading cause of death in Africa

  – Of estimated 2.8 million AIDS-related deaths around world in 2005, 2.0 million were in sub-Saharan Africa

    - Whereas sub-Saharan Africa has just over 10 percent of world's population, it has 64 percent of all people living with HIV

      – Roughly two million are children

      – Women represent 59 percent of the sub-Saharan African adults with AIDS/HIV

The Economic Left and the Economic Right

- THE ECONOMIC LEFT (**Liberal**)
  - Feel that economic growth by itself is not panacea for underdevelopment
  - Feel that although some people benefit from economic growth, many others do not
  - Argue that strategies must be designed to focus on poverty and income distribution; otherwise, high-income groups will only become richer and low-income people will become poorer

- THE ECONOMIC RIGHT (**Conservative**)
  - Prefer growth-oriented strategy that focuses on increasing GDP per capita
  - Assume that all people will eventually benefit from growing propensity of country and that incomes of all people will rise as economic growth proceeds
  - May argue in favor of unequal income distribution on grounds that high-income people save more than low-income people do