

TRANSCENDING THE WASHINGTON VIEW OF DEVELOPMENT

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The Washington view of development has many people in affluent nations celebrating the great strides we have made towards alleviating global poverty. The World Bank presents us with statistics showing that we are well on our way toward achieving the seemingly lofty goals we had set for ourselves regarding poverty eradication and that we deserve to be proud of our efforts. But what precisely is the 'Washington' view of development that presents this rosy picture? It is a view of the trajectory of global poverty based on the statistics, and public presentations of these statistics, coming from decision-makers in Washington: from the World Bank and the United States government (which dominates the UN agency). This Washington view dominates popular understanding of poverty today: that globalization has been beneficial for the

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global poor and that poverty has been rapidly decreasing in an unprecedented way.¹ Citizens of affluent nations are perpetually presented with this picture and, already prone to believe that helping the poor is supererogatory, are unlikely to give global poverty any further thought. We are only too ready to maintain this view because we benefit from the same facets of the international institutional order that perpetuates global poverty.

Let us then examine these statistics and what they tell us about the realities of our world. Official poverty statistics issued by the World Bank show that we are well ahead of schedule toward achieving the first Millennium Development Goal (MDG1): to halve the proportion of people in developing countries living in poverty by 2015.²

¹Since this lecture was presented, at Dharmaram Vidya Kshetram and Christ University in Bangalore on 26 October 2011, the World Bank has published an incredibly rosy "Update" on its poverty figures. See Shaohua Chen and Martin Ravallion, "An Update to the World Bank's Estimates of Consumption Poverty in the Developing World," available at http://siteresources.worldbank.org/INTPOVCALNET/Resources/Global_Poverty_Update_2012_02-29-12.pdf. I have discussed this "Update" with Martin Ravallion on the blog of the World Bank's Chief Economist, Justin Lifu Lin, at <http://blogs.worldbank.org/developmenttalk/politically-filtered-views-on-progress-against-poverty>. I have also written a full-length essay commentary focused on this "Update." See Thomas Pogge, "Poverty, Human Rights and the Global Order: Framing the Post-2015 Agenda" in Malcolm Langford, Andy Sumner and Alice Yamin, eds., *MDGs and Human Rights: Past, Present and Future*, Cambridge: Cambridge University Press 2012. For an even more detailed early discussion of the World Bank's poverty tracking method, see Thomas Pogge, *Poverty as Usual*, Cambridge: Polity Press 2011, ch. 4.

²Shaohua Chen and Martin Ravallion, "The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight against Poverty," World Bank Working Paper 4703, econ.worldbank.org/docsearch, 42.

Year	Poverty Rate in LDW
1981	51.8%
1984	46.6%
1987	41.8%
1990	41.6%
1993	39.1%
1996	34.4%
1999	33.7%
2002	30.6%
2005	25.2%
2015 Target	20.8%

Table 1: The World Bank’s Tracking of the First Millennium Development Goal in Terms of What Proportion of the Population of the Less-Developed Countries Is Living on Less Per Person Per Pay Than What USD 1.25 Could Buy in the US in 2005

In 2005, with 10 years left to reach the goal of a 20.8% poverty rate in less developed countries, the rate was already down to 25.2%. So we must be well on track.³

Unfortunately, comparison with the statistics of the World Food and Agriculture Organisation of the United Nations gives us reason to seriously question the validity of this view.⁴ The number of chronically undernourished people

³The authors of the “Update” cited in note 1 now claim that this rate had been 43.1% in 1990 and that it has dropped to 22.4% in 2008. They also state that “Using the \$1.25 a day line, the developing world as a whole reached the MDG1 in 2010, despite the global financial crisis.”

⁴Data mostly from World Food Program and Food and Agriculture Organization, *The State of Food Insecurity in the World 2010: Addressing Food Insecurity in Protracted Crises* (2010), summarized at Food and Agricultural Organization of the United Nations, *Hunger,*

has risen consistently since about the mid-1990s. There are currently more people chronically undernourished than ever in the history of humankind. The number rose until 2009 and will in all likelihood rise again to break once more above the billion mark: one billion people living in poor enough conditions to be chronically undernourished. This number has been rising over the same period during which poverty has supposedly been declining so rapidly.⁵

www.fao.org/hunger/en/ (last visited 2/22/2011). Number of undernourished in 2008 from Food and Agricultural Organization of the UN, FAO and Emergencies, www.fao.org/emergencies/tce-home/news/emergency-news/emergency-detail/0/item/8894/icode/en/ (last visited 2/22/2011). Percentages for 2008-2010 are calculated by using figures from the Human Population Clock, <http://galen.metapath.org/popclk.html> (last visited 2/22/2011).

⁵This massive trend discrepancy has finally received official notice in the latest *MDG Report*. After depicting the fall in reported poverty between 1999 and 2009 (10) and the rather less pretty evolution of chronic undernourishment (11), the Report comments with a carefully crafted sentence: "The disconnect between poverty reduction and the persistence of hunger has brought renewed attention to the mechanisms governing access to food in the developing world" (11). The sentence suggests a possible explanation for the discrepancy: food distribution systems in less developed countries have been deteriorating so that poor people cannot find food to spend their money on. This speculation, wholly unsupported, defies common sense; and the *Report* is careful not to endorse it but merely to convey vaguely that some people apparently find this explanation worthy of attention. Interestingly, Martin Ravallion offers a different explanation in the blog discussion cited in note 1. He suggests that the FAO numbers may be inflated by failing to take account of the increasing amounts of food poor people are eating away from home, citing research by Lisa Smith purporting to show that India's National Sample Surveys undercount the increasing number of calories Indians are consuming away from home. Refer www.foodsec.org/web/newsevents/iss/presentations/16-january-surveys/en/.

Period	Chronically Undernourished Persons in Millions	Chronically Undernourished Persons as a Percentage of World Population
1969-1971	878	23.8%
1979-1981	853	19.2%
1990-1992	843	15.6%
1995-1997	788	13.6%
2000-2002	833	13.4%
2005-2007	848	12.9%
2008	963	14.3%
2009	1023	15.0%
2010	925	13.4%

Table 2: The Incidence of Chronic Undernourishment in the World as Tracked by the Food and Agriculture Organization of the UN

The massive discrepancy between the reported trend of extreme poverty and the trend of chronic undernourishment is a weighty reason to examine the World Bank’s MDG1 tracking more closely to see whether it is accurately reflecting the reality of global poverty. We may begin this exercise by tracking the evolution of the goal itself, i.e., the goal of “cutting poverty in half by 2015.” This goal has gone through three important permutations in the 1996-2001 period.

The first international commitment to reduce the number of people living in impoverished conditions was made in 1996 when the governments of the world came together in Rome for the World Food Summit and declared: “We pledge our political will and our common and national commitment to achieving food security for all and to an ongoing effort to

eradicate hunger in all countries, with an immediate view to reducing the number of undernourished people to half their present level no later than 2015.” Thus, they promised to reduce the number of undernourished people from 788 million in 1996 to 394 million in 2015. As we have seen, not only have we not made any progress towards this goal; the number of chronically undernourished people has risen substantially since that promise was made.

Noticing that their poverty count was moving away from the target they had announced at the 1996 World Food Summit, the world’s governments adjusted the target. In the year 2000, the UN General Assembly adopted the *Millennium Declaration*, which introduced a different way of understanding what it means to “halve poverty by 2015.” Article 19 of the *Millennium Declaration* promulgates the goal “to halve, by the year 2015, the proportion of the world’s people whose income is less than one dollar a day and the proportion of people who suffer from hunger.” It is quite clear that, so long as the base population is rising, halving the *proportion* of poor people is less ambitious than halving their *number*. The reason is that the proportion of poor people is reduced not merely by a decline in the number but also by any increase in the base population (“the world’s people”). In fact, if the base population doubles, undernourishment and poverty are halved even if the number of poor does not decline at all.⁶

Yet, even this diluted goal is not the version we find in today’s Washington view of development. After the adoption

⁶It should be clear that, in highlighting this revision, I attach no importance at all to whether governments track poverty as a number or proportion. My concern is with the dilution of our goal and with the effort to obscure this dilution by retaining the “halving extreme poverty by 2015” language.

of the *Millennium Declaration*, bureaucrats at the UN got together to forge the promises made there into Millennium Development Goals. This reformulation resulted in the version of MDG1 that is currently tracked by the UN: the proportion of extremely poor and hungry *among the population of developing countries* is to be halved between 1990 and 2015. Although the Millennium Development Goals were meant to originate and derive their authority from the *Millennium Declaration*, the discrepancies between MDG1 and the goal of halving poverty as found in the *Millennium Declaration* allow us to claim a better trajectory in the evolution of global poverty and hunger. MDG1 compares the number of poor and chronically hungry to the population of the less developed countries, which, of course, is growing more quickly than world population as a whole. As we have seen, fast increase in the denominator brings fast decline in the proportion, *even if the numerator (i.e., the actual number of people living in poverty) does not decline at all*. In addition, MDG1 (and all other MDGs) use 1990 as the base year while the *Millennium Declaration* uses 2000, the year of its adoption. Adding these ten years adds considerable growth in the denominator. It also ensures that we can claim credit for the substantial poverty reduction that took place in the decade *before the Millennium Declaration*. In fact, China’s success during that decade ensured that MDG1 was achieved in the world’s most populous region (East Asia and the Pacific) already in 1999, well before MDG1 was even announced!⁷

Table 3 shows the effect of these reformulations on the number of chronically undernourished people deemed

⁷See www.un.org/millenniumgoals/MDG-Page1.pdf, showing the actual proportion of poor people in that region as 28% in 1990 and 14% in 1999, and showing the goal of 14% for 2015.

maximally acceptable in 2015. According the World Food Summit, 394 million; according to the Millennium Declaration, 490 million; and according to our current MDG1, 611 million.

Period	Chronically Undernourished Persons in Millions	Chronically Undernourished Persons as a Percentage of the World Population	Chronically Undernourished Persons as a Percentage of the Population of the Developing Countries
1969-1971	878	23.8	32.6
1979-1981	853	19.2	25.3
1990-1992	843	15.6	19.9
1995-1997	788	13.6	17.0
2000-2002	833	13.4	16.6
2005-2007	848	12.9	15.2
2008	963	14.3	17.5
2009	1023	15.0	18.3
2010	925	13.4	16.6
2015	394	6.7 (490)	10.2 (611)

Table 3: Three Ways of Understanding the Goal of Halving Chronic Undernourishment by 2015

We see a similar shift in goal posts when we compare the various formulations of the goal to halve

extreme income poverty by 2015.⁸

Extreme Poverty	Baseline Year	Baseline Number of Poor (millions)	Promised Reduction in Number by 2015	Target for 2015 (millions)	Required Annual Rate of Reduction
World Food Summit	1996	1656	50% in 19 years	828	3.58%
Millennium Declaration	2000	1665	40% in 15 years	999	3.35%
MDG-1 as Now Tracked	1990	1813	27% in 25 years	1324	1.25%

Table 4: Three Ways of Understanding the Goal of Halving Extreme Poverty by 2015

Once again, we see three very different calculations of the number of people living in extreme poverty that is deemed maximally acceptable in 2015. According to the World Food Summit promise, 838 million; according to the *Millennium Declaration* promise, 999 million; and, according to MDG1, as it is now understood, 1324 million. These clever reformulations show how much contempt the ruling elites of this world have

⁸The baseline numbers of poor are again from Chen and Ravallion, “The Developing World Is Poorer than We Thought, but No Less Successful in the Fight against Poverty,” World Bank Working Paper 4703, econ.worldbank.org/docsearch, 42.

for the poor and how miserably we have failed in raising an outcry about this shifting of the goal posts. In 2002–2003, when I first saw these manipulations, I tried very hard to interest the media of the world in the story. I was turned down by many major newspapers, including *The New York Times*, *The New York Review of Books*, and *The London Review of Books*. The only publication that showed any interest was a smaller newspaper in Germany (*Frankfurter Rundschau*) which gave me an 800 word column. *The New York Times* wrote back that their readers were not interested in this topic.

Of course, the phenomenon of poverty includes many deprivations other than undernourishment. Examination of the official statistics on these other fundamental deprivations should make us even more sceptical of the conclusion that we are on the right track towards poverty alleviation. The harsh reality is that 884 million lack access to improved drinking water,⁹ 2.5 billion lack access to improved sanitation,¹⁰ and almost 2 billion lack regular access to essential medicines.¹¹ Over 1 billion lack adequate shelter,¹² 1.6 billion lack

⁹UNICEF, *New UNICEF Study Shows MDGs for Children Can Be Reached Faster with Focus on Most Disadvantaged*, 7 September 2010, www.unicef.org/media/media_55913.html.

¹⁰UNICEF, *What We Do: Water, Sanitation and Hygiene*, <http://www.unicef.org/wash/> (last modified 6 July 2010).

¹¹World Health Organization [WHO], *WHO Medicines Strategy: Countries at the Core—2004–2007*, at 3, WHO Doc. WHO/EDM/2004.5 (2004), available at <http://apps.who.int/medicinedocs/pdf/s5416e/s5416e.pdf>.

¹²UN Human Settlements Programme, *The Challenge of Slums: Global Report on Human Settlements 2003*, U.N. Doc HS/686/03E, at XXV (2003), available at <http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=1156>.

electricity,¹³ 796 million adults are illiterate,¹⁴ and 215 million children are child labourers.¹⁵ Even more shocking is the number of people who die due to poverty-related causes. According to the World Health Organization, roughly one third of all human deaths, 18 million every year, are from causes such as diarrhoea, tuberculosis, maternal conditions, and respiratory infections — all easily preventable through access to safe drinking water, improved sanitation, more adequate nutrition, rehydration packs, and vaccines and other medicines.¹⁶ These conditions are all but unknown among the affluent. Again, they account for roughly one third of all human deaths. To put that in perspective, in the last twenty-one years since the end of the Cold War roughly 380 million people died from poverty-related causes. This is a number vastly larger than the count of all of the deaths resulting from government violence — wars, concentration camps, gulags, genocides — in the entire twentieth century.

¹³UN Habitat, *Our Work: Urban Energy*, <http://www.unhabitat.org/content.asp?cid=2884&catid=356&typeid=24&subMenuId=0> (last visited 4 April 2011).

¹⁴UNESCO Institute for Statistics, *Literacy Topic*, http://www.uis.unesco.org/ev_en.php?ID=6401_201&ID2=DO_TOPIC (last modified 29 March 2011).

¹⁵International Labour Organization, *Topics: Child Labour*, <http://www.ilo.org/global/topics/child-labour/lang--en/index.htm> (last visited 4 April 2011).

¹⁶WHO, *The Global Burden of Disease: 2004 Update*, Geneva: WHO Publications, 2008, table A1, 54–59.

Event	Number of Deaths in Millions
Worldwide Poverty Deaths 1990-2011	380
World War II 1939-45	60
Mao's Great Leap Forward 1959-1962	30
Stalin's Repression 1924-53	20
World War I 1914-1918	17
Russian Civil War 1917-1922	9
Congo Free State 1886-1908	7.5
Korea and Vietnam Wars 1951-54, 1965-74	5.5

Table 5: Deaths from Poverty-Related Causes 1990–2011 Compared with Deaths Due to Government Violence in the Twentieth Century

This startling death toll should make us question whether we are really as committed as we think we are to the human rights we like to proclaim. The human right least realized, Article 25 of the *Universal Declaration of Human Rights*, states: “Everyone has the right to a standard of living adequate for the health and wellbeing of himself and of his family, including food, clothing, housing, and medical care and necessary social services.” Despite all of the proclaimed ideals, our seemingly lofty declarations, poverty and its concomitant human rights deprivations persist on a massive scale. They persist even while global average income is increasing and the world on the whole is doing quite well.

A superficial answer to how this can be the case may be found in the enormous extent of the disparities that have built

up during the globalization period in the distribution of global household income.

Segment of World Population	Share of Global Household Income 1988	Share of Global Household Income 2005	Absolute Change in Income Share	Relative Change in Income Share
Richest 5%	42.87	46.36	+3.49	+8.1%
Next 5%	21.80	22.18	+0.38	+1.7%
Next 15%	24.83	21.80	-3.03	-12.2%
Second Quarter	6.97	6.74	-0.23	-3.3%
Third Quarter	2.37	2.14	-0.23	-9.7%
Poorest Quarter	1.16	0.78	-0.38	-32.8%

Table 6: *The Distribution of Global Household Income, 1988 and 2005, Converted at Market Exchange Rates*¹⁷

It is important to note that the magnitude of the disparity between the share of global household income going to the richest segment and that going to the poorest. In 2005, the top 5% of the world's population received 46.36% of global household income and the next 20% received a similar

¹⁷These data were kindly supplied by Branko Milanovic, principal economist in the World Bank's Development Research Group, in a personal email communication on 25 April 2010. See also his "Global Inequality Recalculated and Updated: The Effect of New PPP Estimates on Global Inequality and 2005 Estimates" in *Journal of Economic Inequality* 10 (2012, forthcoming).

proportion. This top quarter, then, of the world's population had 90.34% of global household income. The other three quarters combined had only 9.66% of global household income with the poorest quarter reduced to a mere 0.78%.

A second important point to note is that inequality increased dramatically over these seventeen years, which helps explain the persistence of poverty despite the increase in global average income over the same period. Only the richest 5% of the human population has gained substantially in their share of global household income over the globalization period, while the poorest 90% have lost ground. By far, most ground was lost by the poorest quarter which lost about a third of its share of global household income. This loss constitutes only 0.38% of the total pie; but a stunning 32.8% of their relative share. In only seventeen years, the ratio of the average income in the top 5% and that in the poorest quarter has jumped dramatically from 185 to 297. So, the superficial answer to why absolute poverty persists on such a massive scale despite increasing global average income is that the poor are simply not participating in global economic growth.

Let us now examine the path that globalization has taken in order to find out why it has led to such a dramatic rise in global economic inequality. Globalization involves a set of competitive systems — the global economy and financial markets, politics and international relations, courts, etc., — all affecting the global economic distribution. Competitive systems can be highly efficient at eliciting everyone's best efforts and, therefore, resulting in the greatest common good. But this will actually happen only so long as the competition is properly framed such that its rules of competition are focused on achieving the common good and are applied transparently

and impartially so that those who do best at promoting the common good win the competition.

Unfortunately, competitive systems contain the seeds of their own demise insofar as they provide incentives to various reward-focused players to try to get ahead not by performing better than others at what is being rewarded, but by affecting, in their own favour, either the rules or their impartial application. Such efforts at regulatory capture turn the rules and personnel structuring and constraining the competition themselves into objects of the competition. Competitive systems can lose much of their effectiveness when such efforts to corrupt are lucrative. Resources that ought to be invested in socially valuable activities to be rewarded through the competition are then diverted to attempts at rule manipulation through lobbying and, insofar as these attempts succeed, they diminish the degree to which the functioning of the system tracks its social purpose.

The fundamental flaw in the modern global economy is that the richest agents have both the ability and the incentives to invest extensive resources into regulatory capture in order to gain an ever increasing share of the social product for themselves. Increasing globalization has meant the emergence of a complex set of supranational laws and regulations which have ever-growing influence on national legislation and national economies. The intergovernmental negotiations through which supranational rules are created and revised are undemocratic and intransparent, excluding the general public and a majority of the weaker governments. This is largely because only an elite group of ‘players’ have the effective bargaining power and specialized knowledge to exert any real influence on the negotiation processes.

This group, including governments of the most affluent countries, large multinational corporations and banks, very rich individuals, and the ruling elites of the most powerful developing countries, are also best positioned to engage in cost-effective lobbying to manipulate the rules in their favour. These already rich and powerful agents are the only ones for whom it is not prohibitively expensive to invest the necessary amount of resources into gaining the requisite expertise, forming political alliances, and lobbying the governments that dominate supranational rulemaking processes. As their share of global wealth increases, the global elite become only more effective at manipulating the rules, thus, entrenching their privilege and power and perpetuating the poverty of the poorer half of humanity. Therefore, it shouldn't be surprising that the past seventeen years of globalization have led to income polarization as the rich minority capture ever more influence over supranational negotiations, further marginalizing the poorer majority of humanity.

A common objection to this line of argument says that the persistence of poverty and the increase in global economic inequality are the result of domestic factors rather than supranational rule making. Economic growth in Western countries results from their highly effective domestic policies while many developing countries are impeded by political corruption and various cultural and geographical factors. Proponents of this view point to the spectacular rates of economic growth of some developing countries, mainly China and India, each with economies growing far more quickly than Europe, North America, and Japan. They argue first that these success stories show that national economic growth is dependent on domestic factors rather than supranational institutional arrangements. The massive economic

achievements of some developing countries have also led to a closing of the income gap between the affluent countries and the poor countries. Appealing to such evidence, it is then argued that rising global income inequality must be the result of rising *intra*-national inequality which can only be addressed through the domestic policies of the countries concerned. I will respond to each part of this objection sequentially.

First, the claim that the success of some developing countries shows that supranational rules cannot account for the persistence of poverty where it persists is a *non-sequitur*. It merely shows that local factors are co-responsible for the persistence of poverty; it cannot show that they are solely responsible. I will illustrate this point with an example. In any course of education, some of the students will typically perform very well and others poorly. This observation does not prove that teachers are irrelevant to student success. It is quite possible that if there were a different teacher all of the students would do worse or that if the teacher chose different reading materials, those who were doing poorly would do better and those who were doing well would do worse. Further, it is possible that the particular attitudes or teaching style of the teacher de-motivate some students while particularly motivating others. It is clear that there are many ways in which the global factor of the teacher, although the same factor for all students, can nevertheless significantly influence both the overall performance of the class and also discrepancies in student performance. The same dynamic is at play with supranational rules and the perpetuation of poverty. Nobody would deny that local factors are crucial to explaining the persistence of poverty, just as nobody would deny that each student's particular characteristics play a large role in her

academic performance. But it does not follow that the global factors in each case do not play an important role as well.

Responding to the second part of the objection, one might note that the globalization period has seen massive increases in intra-national inequality in nearly all countries, including those that have achieved high rates of national economic growth and those generally considered to have reasonably just domestic policies. The US, for example, after undergoing gradual income equalization from the beginning of the Great Depression, has experienced dramatic income polarization during the globalization period.

Segment of U.S. Population	Share of U.S. Household Income 1928/29	Share of U.S. Household Income 1980/81	Share of U.S. Household Income 2007/08	Absolute Change in Income Share 1980/1–2007/8	Relative Change in Income Share
Richest 0.01%	5.01	1.33	5.54	+4.21	+318%
Next 0.09%	6.22	2.17	5.81	+3.64	+168%
Next 0.9%	11.92	6.53	10.89	+4.36	+67%
Next 4%	14.38	13.09	15.37	+2.28	+17%
Next 5%	10.48	11.48	11.39	-0.09	-1%
Next 15%		24.63	21.14	-3.49	-14%
Second Quarter		25.61	19.45	-6.16	-24%
Poorest Half		17.72	12.51	-5.21	-29%

Table 7: Distribution of National Household Income in the US¹⁸

¹⁸The top five rows of the table present data from Facundo Alvaredo, Tony Atkinson, Thomas Piketty and Emmanuel Saez, "Top Incomes Database,"

Table 7 shows that relative income gains in the US were highly concentrated among the richest segments of the population, with the top 0.01% quadrupling their share of US household income. Income gains were restricted to the top ventile (one twentieth) of the population while the share of income of each of the lower 19 ventiles declined. With relative income losses greatest for the poorer half of the population, dramatic polarization can be seen once again. The richest 0.01% of the US population (30,000 people) now have nearly as much income as the bottom half of Americans (150 million) and they have increased their advantage in average income over the poorer half six-fold, from 375:1 to 2214:1. Just as one would suspect given the lucrateness of regulatory capture in the current supranational institutional system, the ruling elite of the United States — the strongest party in international negotiations — have benefitted the most from globalization relative to the rest of the world. Those same 30,000 richest in the US have about two-thirds as much income as the bottom half of the world’s population — 3400 million people. This computes to a ratio in average incomes of 76,000:1. Persons in the top 1/100% of the US population each have as much income, on average, as 76,000 people in the poorer half of humanity.

<http://g-mond.parisschoolofeconomics.eu/topincomes/> (last visited 2 April 2011). The remaining three rows present data provided by Mark Robyn and Gerald Prante, “Tax Foundation: Summary of Latest Federal Individual Income Tax Data” (Table 5), www.taxfoundation.org/publications/show/250.html (last visited 2 April 2011). Because the data come from different sources, columns 2–4 do not quite sum up correctly. But this should not disturb the table’s point which is to display the rapid polarization of the US income distribution documented in the rightmost column.

The rapid income polarization in the US during the globalization period along with the sheer magnitude of the wealth of the richest 0.01% support the claim that supranational rules, heavily influenced by the rich global minority, have contributed significantly to the trend of rising intra-national inequality. Thus, we should reject the hypothesis that global income polarization is the result of rising intra-national inequality, which, in turn, is largely driven by domestic policy.

But it is not enough merely to show that domestic policy is not the main exogenous driver of global inequality. Support of my argument requires examination of supranational rules and other aspects of the global institutional order that can plausibly be considered to contribute to the perpetuation of poverty. So, let us look at some of such more important factors. First, wealthy countries have used their influence and power in the World Trade Organization (WTO) to create international trade rules that work in their favour and prove huge impediments to the economic development in developing countries. The WTO rules allow wealthy countries to protect their markets through tariffs, anti-dumping duties, export credits, and massive subsidies to domestic producers stymieing developing countries particularly in those areas where they would otherwise be most able to compete. For example, the WTO offers loans to developing countries contingent on their dismantling protectionist barriers such as tariffs on foreign imports. At the same time, it allows affluent countries to heavily subsidize their agricultural sectors. The result is that farmers in developing countries cannot viably compete with foreign producers. They simply can't sell their produce as cheaply as imported produce is selling for and make any profit. Unfair regulation of the agricultural sector has

been particularly destructive to developing economies, many of which are almost exclusively based in agriculture. This protectionism allows the wealthy countries, and particularly the richest actors in those countries, to benefit at the expense of the poor under the guise of free and open markets.

Second, wealthy countries contribute disproportionately to global pollution and yet they are allowed to enjoy the benefits of their polluting activities without compensating the poor who bear the brunt of the hazards of pollution. Poor populations are particularly vulnerable to the health risks, and dangers of climate change wrought by pollution. A Global Humanitarian Forum report quantifies how climate change, as a product of pollution, already harms the world’s poor. The report finds that climate change causes \$125 billion in economic losses annually, as well as 300,000 deaths, of which 99% are in less developed countries. Thus, those who pollute the most are least likely to suffer the consequences of their actions. Instead, their uncompensated damage is largely borne by those least well-positioned to recover from it.

Third, affluent countries assist the corrupt regimes of some less developed countries by participating in the embezzlement of public funds. Wealthy countries highly regulate banks, and require strict reporting in order to monitor money connected to terrorism or the drug trade. Banks are unfettered, however, in their ability to accept for deposit foreign funds embezzled by public officials in less developed countries. Thus, a significant amount of money is funnelled out of less developed countries and into Western banks. Global Financial Integrity has estimated that, from 2000-2008, at least \$342 billion was illicitly siphoned off into such accounts. Politically, it makes sense that drug money is prohibited from banks while embezzled money from developing countries is

allowed; drug trafficking is a politically salient topic in affluent nations. Poverty, on the other hand, is not; so, banks are allowed to benefit from these embezzled billions while avoiding public or political repercussions.

Fourth, we confer four international privileges upon any person or group able to gain coercive control over a country regardless of how they exercise that control. These are: the privilege to sell the natural resources of that country, to borrow in the name of the country, to sign treaties on behalf of the country, and to import the weapons necessary to entrench one's power. Aside from dramatically increasing the power of these often illegitimate rulers, these privileges provide massive incentives for persons or groups to overthrow government by any means necessary, thus incentivizing violent power struggles, especially in countries that are rich in natural resources. Further, by allowing rulers to maintain and even greatly increase their power without being dependent on the popular support of the people they rule, these privileges both incentivize the perpetual violent struggle that is particularly disastrous for burgeoning economies and then bolster leaders who have little or no incentive to invest in infrastructure, poverty reduction, or general economic development. Affluent countries benefit from doing business with these rulers, particularly from buying large quantities of their countries' resources and are, thus, inclined to maintain the status quo. Thus, some of these nations choose to incentivize and propagate corruption and bad domestic policy even while they absolve themselves of responsibility for alleviating poverty by pointing to these very same domestic shortcomings.

Finally, an absence of any kind of international labour standards creates a race to the bottom that now pits poor countries against one another in offering increasingly cheap

and exploitable sources of labour. While the WTO requires staunch protection of intellectual property rights, it fails to require member states to maintain any standards for protection of workers. In fact, WTO rules disallow the enactment of fair labour standards. Member states are not, for example, allowed to restrict or prohibit the importation of goods made under oppressive working conditions. Highly exploited labour is routinely used in the production of cheap consumer goods that affluent nations enjoy.

It is clear that the supranational institutional arrangements fall far short of being reasonably designed for the fulfilment of human rights, in particular that to an adequate standard of living. Yet, the citizens of affluent nations are disinclined to reform these rules on the false premise that any significant reduction in global poverty would require unreasonable sacrifices on their part. The solution, then, is to focus their immediate efforts on reforms at the supranational level that are clearly beneficial for the poor and the affluent alike.

This shift towards supranational institutional reform will help us better fulfil Article 28 of the *Universal Declaration*, which states that “Everyone is entitled to a social and *international* order in which the rights and freedoms set forth in this Declaration can be fully realized.” Working to reduce poverty within an unjust international order is both insufficient and inefficient. What we need first and foremost are structural reforms at the international level. Ideally, these reforms would also promote stability, particularly by controlling regulatory capture. While the incredibly important and valiant work of those trying to protect the poor directly by providing medical care, working to improve sanitation, purifying water, etc., should certainly not go without commendation, it takes tens of

thousands of these noble people to compensate for one bad decision at the global institutional level. If we fail to contest the structure of the world economy we will never win the fight to emancipate the poor from the inhumane deprivations they must currently endure.

From the above discussion it is clear that the poor currently suffer immensely from a lack of access to essential medicines. On the surface, changing the supranational rules that govern the pharmaceutical industry presents a daunting challenge, and yet by manipulating the incentives involved, we can motivate profit-driven companies to develop medicines for the poor such that all parties benefit. The 1994 Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement has globalized the intellectual property regime of the affluent countries by making enforcement of said regime a mandatory condition of WTO membership. Pharmaceutical innovators must now be granted *product* patents of minimally 20 year duration in all WTO member states. This introduced more stringent regulation than *process* patents, which do not close off the opportunity to produce generic pharmaceuticals because they only protect one specific way of making a drug. India, for example, fulfilled its obligation under TRIPS by passing the required implementing legislation in December 2004. Before that time, generic drug manufacturers in India were frequently able to circumvent process patents by finding new ways of manufacturing advanced drugs. They could then mass produce these drugs and sell them cheaply throughout India and all over the world. By creating airtight monopolies, the new TRIPS system substantially curbs generic drug manufacture during the period in which each medicine is most likely to have the highest therapeutic value.

This now global system of intellectual property rights protections does poorly on three important counts. First, it prevents universal access to essential medicines and creates absurd situations where medicines that are cheaply producible are sold at mark ups of 20 or even 80 times the cost of production. This leads to the preventable deaths of many people who can't afford to purchase the medicines that could save their lives while those medicines are protected by patents. Further, by the time generic producers are allowed to produce those drugs, many have become less effective, as resistant strains of various diseases often develop in the interim. This occurs even in affluent countries where there are inadequate incentives for the creation of generics even after the patent period has expired.

As a second drawback, the TRIPS system provides incentives for pharmaceutical companies to develop drugs to treat even minor conditions such as hair loss and skin irritation that affect predominately wealthy people and disincentives to develop drugs to alleviate sicknesses that predominantly burden the poor, e.g., diseases like malaria, tuberculosis, and measles. This is so because, under the TRIPS system, the only way to recover substantial investments into research and development and to make a profit is through huge price mark ups while the drug is under patent. Poor populations simply cannot afford to buy medicines at these marked up prices; therefore, innovators cannot profitably invest in creating the drugs that could save their lives.

The third drawback is that the TRIPS system is extremely inefficient in the sense that most of the money that pharmaceutical firms earn from sales does not go back into manufacture of medicines or into research and development efforts but rather it goes towards lobbying, gaming, the

expenses of patenting, and endless litigations between brand-name companies and generic companies or among brand-name companies.

That the TRIPS system is extremely wasteful is actually in one sense good news, because it means that we can engage the interests of the middle classes and the rich in reform of the system for the benefit of the poor. The middle class will benefit from reduced drug prices. Pharmaceutical companies will benefit from an increased customer base of poor consumers, opening an entire new market of drugs to profit from. Drug companies will also save substantial amounts of money that they would otherwise waste on lobbying, patenting, and litigation. Thus, it is not only the poor who have an interest in changing this system.

The present system of intellectual property law regarding pharmaceuticals fails to be either efficient or to allow for the realization of human rights. But how can we reform the current system so as to improve universal access to essential medicines? Moral pressure on innovators is not going to be the solution. While pharmaceutical companies have moral duties just like everybody else, it is unrealistic to expect them to live up to those duties for two main reasons. First, they are bound to shareholders who will become unruly if they feel that the company is not maximizing profits. Second, these companies are engaged in fierce competition and cannot risk losing profits by investing in research and development for drugs for the poor. In such a competitive environment, under the existing rules, those who are least moral will remain in the game. What we must do, then, is to change the rules under which these companies operate.

Alongside colleagues from several countries and academic disciplines, I have proposed a Health Impact Fund

(HIF). Complementary to the TRIPS regime, the HIF is a second track through which pharmaceutical innovations can be rewarded. Health Impact Fund registration is thoroughly voluntary; innovators may choose to register a new drug with the Health Impact Fund rather than exploit the patent-protected mark-up powers that they have under the current regime. By doing so, they forgo the monopoly rights that allow pharmaceutical companies to sell their drugs at hugely marked up prices. They agree to sell the new medicine or product wherever it is needed at the lowest feasible average cost of manufacture and distribution and to grant zero-priced licenses after the reward period is over. How can this lowest feasible cost be determined? The HIF might require innovators to put the manufacture of their registered product out for tender, letting generic drug companies compete for the world contract to manufacture it. The innovator will then buy the medicines at cheapest possible price and sell it to patients all over the world at that same price, making no money at all on the manufacture and sale of the product.

In exchange, the Health Impact Fund promises to reward any registered product annually for ten years according to its health impact (measured in Quality Adjusted Life Years or QALYs). Thus, innovators are rewarded on the basis of the actual therapeutic benefits of each medicine they register. In order to provide enough incentive for pharmaceutical firms to invest in research and development of drugs for diseases affecting primarily poor populations, Health Impact Fund rewards will need to approximate the profits that firms can currently make through mark ups. This is ensured by creating annual reward pools funded by willing governments at initially 6 billion dollars per annum. (This is a very small part of the global product and, in particular, a small part of the 900

billion dollars that the world now spends on medicines; the cost of the HIF is only about 0.7% of total pharmaceutical expenditures.) These reward pools are divided up each year among the registered products in proportion to the health impact each of these has achieved in the current year. In this way, each registered product is rewarded at the same rate (dollars per QALY); and this rate is bound to be attractive because registration is voluntary. Were the rate to drop toward a level where innovators can no longer make a decent return on their investment, this drop would discourage new registrations and thereby cause the rate to recover 'naturally'. The converse is true as well. Were the rate to rise toward a level where innovators would make windfall profits at the expense of the public, this rise would attract additional registrations that would bring the reward rate back down. Featuring a self-adjusting reward rate, the HIF can assure its registrants and funders alike that it will maintain a reasonable return on registered products.

The medicines that would be registered with the Health Impact Fund will tend to be extremely important medicines with tremendous potential for lowering the global burden of disease. Here it is worth noting that innovators may well have good reason to sell a registered product below the cost of production in order to harvest the additional health impact rewards from very poor people for whom even the lowest feasible cost of manufacturing of a medicine is prohibitively expensive.

I have, thus, shown that — despite rising global average income — life-threatening poverty persists to an alarming extent. This catastrophe is due to rising global inequality, which, in turn, is in large part due to unjust supranational arrangements shaped by the intense lobbying of

the richest corporations, industry associations, banks, and individuals. Poverty cannot be eradicated by efforts to help and protect the poor. We also need to contest supranational rule-making processes: conceive of effective supranational reforms that are also politically realistic. One example of such a reform is the Health Impact Fund, which, once realized, would open opportunities to additional reform efforts: through impact fund mechanisms in agriculture (increasing nutrient yields and reducing the use of fertilizers and pesticides) and green/clean technology (decreasing emissions and waste of non-renewable resources), for example, and also more broadly through the deliberate inclusion of the interests of humanity's poorer half into supranational design decisions.