UNFAIR SHARE

Economists in developed countries have constructed a comforting narrative about our efforts to fight world poverty, but a closer look at the statistics exposes a series of broken promises and rigged initiatives

By Thomas Pogge

Fairness of an economic system can be defined by two requirements. First, people must have minimally adequate starting positions, so that they can effectively participate. In our time, this requirement is unmet for people who lack basic literacy and numeracy or live from childhood on with undernutrition or endemic malaria. Such conditions pre-empt their capacity to explore and evaluate their options for buying and selling, borrowing or employment. Second, those at the bottom must be able to share proportionately in economic growth. This requirement is unmet, for instance, in a feudal system where the gap between the landowners and the landless widens relentlessly, no matter how much harder the latter may work.

Despite abundant rhetorical commitment to the ideal of a fair global economic order, the world has actually moved in the opposite direction. According to the UN Food and Agriculture Organisation, the number of chronically undernourished people steadily increased from the early 1990s before rising above a billion in 2009 for the first time in human history. Branko Milanovic reports that, in a mere 17 years of globalisation (1988 to 2005), the share of global household income going to the bottom quarter of the world's population has fallen by a third (from 1.155% to 0.775%), with the gap between the average income of the top 5% and that of the bottom quarter widening from 186:1 to 299:1.

These bleak statistics disturb the rosy picture of valiant effort and partial success that well-paid economists are feeding to the media and public of affluent countries. But if we care about fairness, as opposed to the mere appearance of it, then we must be willing to face the facts, as well as to look more closely at how that inaccurate narrative is produced. We must examine the World Bank's unsound purchasing power adjustments, which count a person as non-poor even though his or her entire income can buy only as much daily food as could be bought in the US for 83 cents. We must recognise the mendacity of the Millennium Development Goals (MDG) effort, which is illustrated by tracing the emergence of the first and most prominent MDG: the promise to halve extreme poverty by 2015.

THOMAS POGGE IS PROFESSOR OF PHILOSOPHY AND INTERNATIONAL AFFAIRS AT YALE UNIVERSITY

The first version of this promise was made in the 1996 Rome Declaration on World Food Security. It commits us to halve the number of undernourished people between 1996 and 2015. The second version of the promise was made by the UN General Assembly in its 2000 Millennium Declaration. It commits us to halve, between 2000 and 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". The third version of the promise, supposedly based on the Millennium Declaration, is the official formulation of MDG-1 now used to track progress. It commits us to halve, between 1990 and 2015, the proportion of extremely poor people among the population of the developing countries.

Concealed by an unchanged catchphrase ("halve extreme poverty by 2015"), the revisions cleverly dilute the promise. By basing the target on a proportion rather than a number, the later versions take advantage of population growth. This advantage is magnified by relating the number of poor to the faster-growing "population of the developing countries" rather than to "the world's people", and it is magnified

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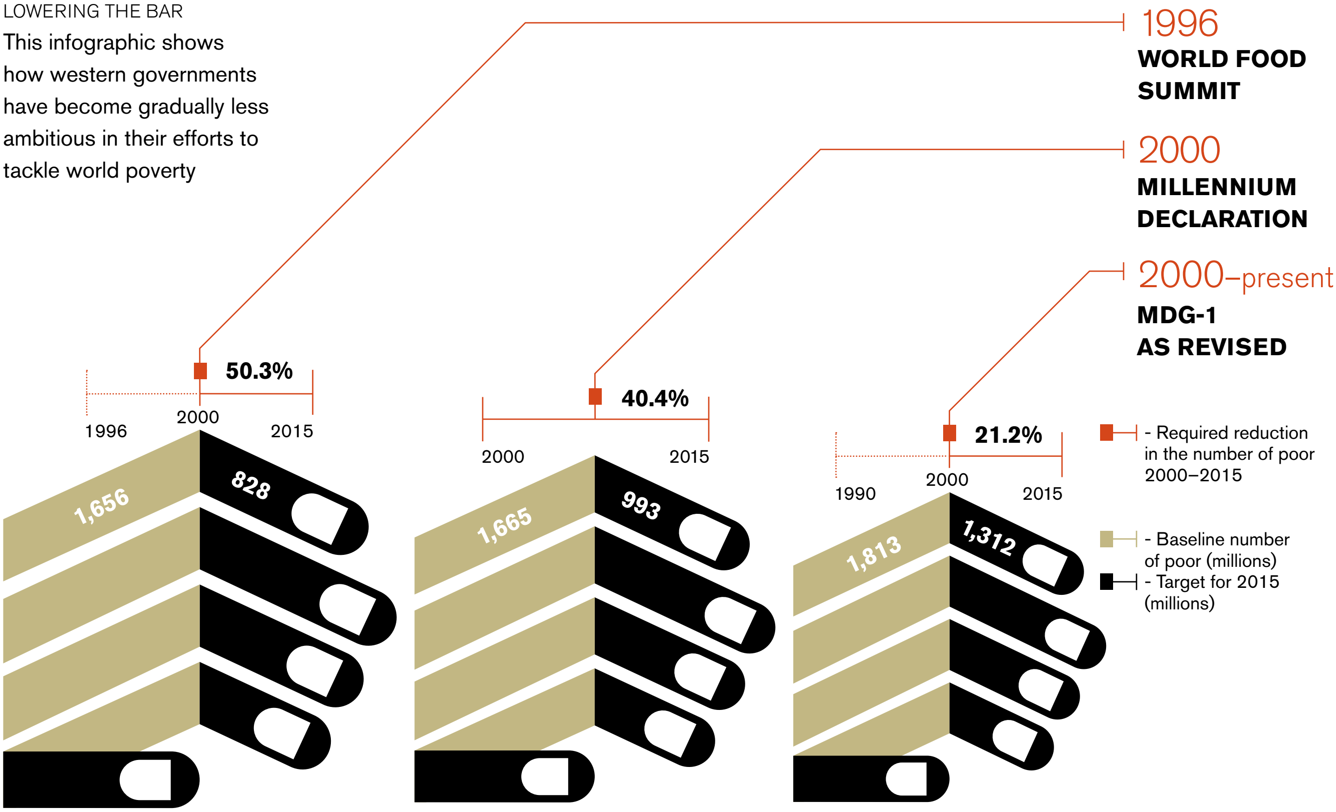
LOWERING THE BAR
This infographic shows how western governments have become gradually less ambitious in their efforts to tackle world poverty



again by the decision to backdate the baseline to 1990: if the population of the developing countries grows until 2015 as expected, to 146% of what it was in 1990, then the number of poor only needs to fall to 73% of what it was in order to "halve poverty". This is obviously much less ambitious than reducing the number of poor to 50% of what it was. The backdating to 1990 brings the further advantage that spectacular poverty reductions in China during the 1990s can now be counted toward the Millennium Development Goals.

Using the latest World Bank data on the evolution of extreme poverty and the latest UN statistics on population growth, the graphic above displays the significance of the reformulations. The dilutions have added 484 million to the number of people whose extreme poverty in 2015 will be deemed morally acceptable, or even celebrated as success. Yet an extra 484 million people in extreme poverty equates to about six million additional premature deaths from poverty-related causes each year.

Even more remarkable than the thoughtfulness expended on these deceitful reformulations is the fact that, despite their high visibility, they drew no protests or even comments from any of the politicians, bureaucrats and experts (including those from less developed countries) who are supposedly engaged in the fight against poverty. None of them was willing to put his or her career at risk in order to try to protect the poor by holding the global elite to their earlier promises.

The story of the past 20 years is not that, through deception, the global elite did less than it ought to lift people out of poverty. Had the poorest quarter of humanity merely kept up with the growth in the global average income, had they merely maintained their wretched 1.155% share of global household income, they would have had 49% more in 2005 than they actually had. While this would still have been a less than fair basis for participation in the world economy, it would nonetheless have been a huge improvement on their actual condition. The real story of the past 20 years is that, despite all the rhetoric and despite good and successful efforts by many NGOs and development agencies, the world's poor have been slaughtered. If we don't understand how this happened, we won't be able to do better in the post-MDG era.

WHAT WENT WRONG?

If acknowledged at all, the massive persistence of extreme poverty is usually explained by two factors: corrupt and oppressive regimes in many poor countries, and the 'leaky bucket' of development assistance. Both these explanations have an element of truth. But the first fails to explain the high prevalence of corrupt and oppressive regimes, and the second why the income share of the poor is falling, and rapidly so.

My own explanation redeploys the metaphor: the assets of the poor are like a leaky bucket, continuously depleted by massive outflows that overwhelm the effects of development assistance, which, in any case, are puny. We take great pride in our assistance, boasting of the roughly $15bn that OECD countries spend annually on basic social services in poor countries. Yet we ignore the vastly larger amounts that we extract from the poor without compensation. Let me count the ways.

First, affluent countries and their firms buy huge quantities of natural resources from the rulers of developing countries without regard for how such leaders came to – and how they exercise – power. In many cases, this amounts to collaboration in the theft of these resources from their owners: the country's people. It also enriches their oppressors and thereby entrenches the oppression: tyrants sell us the natural resources of their victims and then use the proceeds to buy the weapons they need to keep themselves in power.

Second, affluent countries and their banks lend money to such rulers and compel the country's people to repay it even after the ruler is gone. Many poor populations are still repaying debts incurred, against their will, by dictators such as Suharto in Indonesia, Mobutu in the Democratic Republic of the Congo and Abacha in Nigeria. Again, we are participating in theft: the unilateral imposition of debt burdens on impoverished populations.

Third, affluent countries facilitate the embezzlement of funds by public officials in less developed countries by allowing their banks to accept such funds. This complicity could easily be avoided: banks are already under strict reporting requirements with regard to funds suspected of being related to terrorism or drug trafficking. Yet banks still accept and manage embezzled funds, with governments ensuring that their banks remain attractive for such illicit deposits. Global Financial Integrity (GFI) estimates that less developed countries have annually lost at least $342bn in this way during the 2000–08 period.

Fourth, affluent countries facilitate tax evasion in the less developed countries through lax accounting standards for multinational corporations. Since they are not required to do country-by-country reporting, such corporations can easily manipulate transfer prices among their subsidiaries to concentrate their profits where they are taxed the least. As a result, they may report no profit in the countries in which they extract, manufacture or sell goods or services, having their worldwide profits taxed instead in some haven where they only have a paper presence. GFI estimates that, during the 2002–06 period, trade mispricing has deprived less developed countries of $98.4bn per annum in tax revenues.

Fifth, affluent countries account for a disproportionate share of planetary pollution. Their emissions are prime contributors to serious health hazards, extreme weather events, rising sea levels and climate change, to which poor populations are especially vulnerable. A recent report by the Global Humanitarian Forum, led by Kofi Annan, estimates that climate change already seriously affects 300 million people and causes $125bn worth of economic losses every year. It also causes 300,000 deaths, of which 99% are in less developed countries.

Finally, affluent countries have created a global trading regime that is supposed to release large collective gains through free and open markets. The regime is rigged, however, by allowing rich states to continue to protect their markets through tariffs and anti-dumping duties and to gain larger world market shares through export credits and subsidies (including about $300bn annually in agriculture) that poor countries cannot afford to match. Since production is much more labour-intensive in poor than in affluent countries, such protectionist measures destroy many more jobs than they create.

Taken together, these factors generate a massive headwind against the poor. This overwhelms the effects of public and private foreign aid, meaning that the poor remain excluded from effective participation in the globalised economy and cannot benefit proportionately from global economic growth.

SUSTAINABLE SUPPORT

This problem may be solvable through huge increases in development aid, but such continuous compensation is neither cost-effective nor sustainable. It is far better to develop institutional reforms that would reduce the headwind, and eventually turn it off. This would mean seeing the world poverty problem not as a specialist concern at the margins of politics but as an important consideration in all decisions related to institutional design.

In an earlier essay in the *RSA Journal* (June 2007), I illustrated this approach by examining how new medicines are incentivised and rewarded. The current method of product patents – globalised through the 1994 Agreement on Trade-Related Aspects of Intellectual Property Rights – predictably causes pharmaceutical research to bypass diseases concentrated among the poor and new medicines to be priced beyond their reach. These disadvantages could be greatly reduced through a parallel mechanism, the Health Impact Fund (HIF), which would offer innovators the option to receive publicly funded rewards based on a product's health impact in exchange for selling this product worldwide at cost.

If countries contributed to the HIF according to their gross national income, most of the cost of HIF-funded research and development (R&D) would be borne by affluent populations and people, just like today. Yet there would be two important differences. First, registered innovators would not profit from the mere sale of their product; their profit would depend on how far the product actually improves patient health. Second, registered innovators would not need to exclude poor patients in order to profit from serving affluent ones; they would profit equally from serving all patients at the same low price.

The HIF would bring a permanent and immense threefold gain in global health. It would induce innovators to develop products for HIF registration that can reduce the burden of disease most cost-effectively, thereby transforming previously neglected diseases into some of the most lucrative pharmaceutical R&D opportunities. It would take R&D costs out of the price of registered products, dramatically improving access to advanced medicines. And it would motivate registrants to ensure that their products are widely available, perhaps at even lower prices, competently prescribed and optimally used. All earnings from a registered medicine reflect its actual therapeutic benefits.

By reducing the huge inefficiencies of the current system, the HIF can unburden poor populations at little or no cost to the affluent. Other institutional reforms that reduce severe poverty will, however, inevitably involve some costs. Currently, the richest 15% of world citizens have an 81.66% share of global household income. The question is, are they prepared to accept a slightly smaller share so that the bottom half of humanity can have an extra percentage point or two beyond their current 2.91%? If so, let's make sure our politicians know. ■