

Global Economy

Lecture 5

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Inequality in Income

Poverty

Ways of poverty alleviation in poor countries

Official Development Assistance

Income gap among countries

Source: Human Development Report 1999 (<http://hdr.undp.org>)

- World inequalities have been rising steadily for last two centuries.
- An analysis of long-term trends shows the distance between the richest and poorest countries was about:
 - 3 to 1 in 1820,
 - 11 to 1 in 1913,
 - 35 to 1 in 1950,
 - 44 to 1 in 1973,
 - 72 to 1 in 1992,
 - 77 to 1 in 1997.

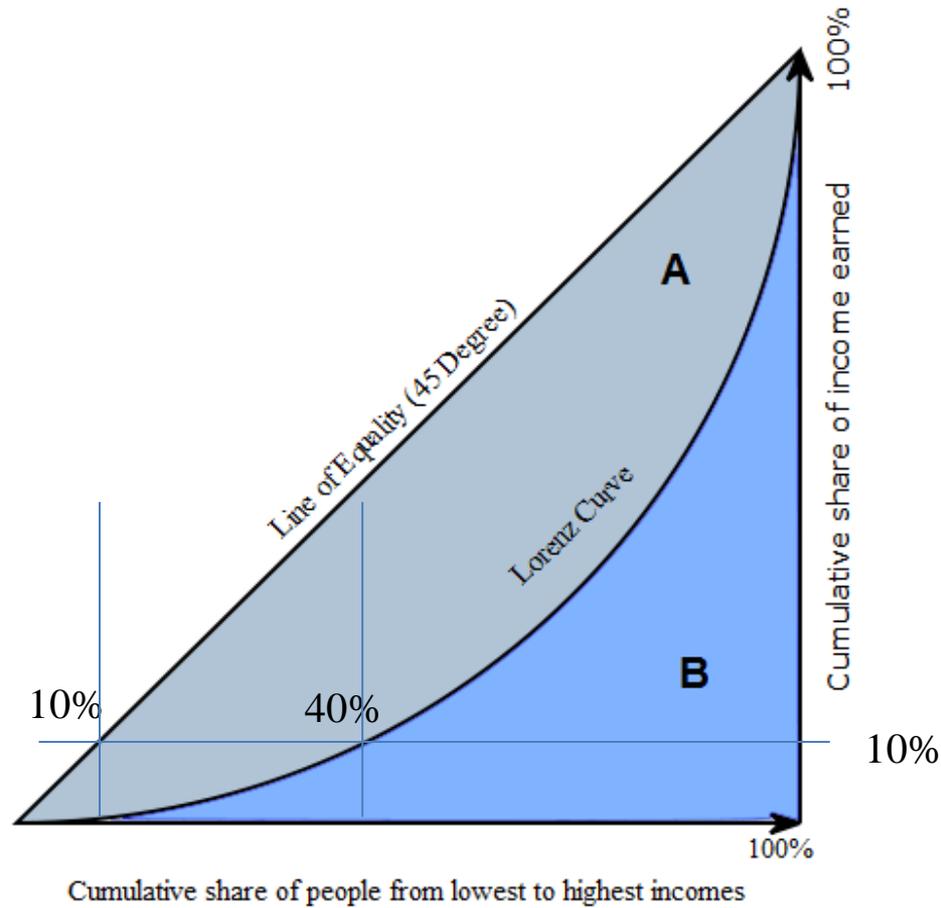
Income gap among countries

- 104 390 USD per capita (Luxembourg) : 177 (Burundi) = **590** in 2010 (World Economic Outlook Database-October 2010, IMF)
- 122 272 USD per capita (Luxembourg) : 197 (Burundi) = **620.7** in 2011 (<http://www.imf.org>)
- 115 809 USD per capita (Luxembourg) : 217 (Congo (Dem. Rep. of)) = **533.7** in 2012 (<http://www.imf.org>)
- 137 162 USD per capita (Qatar) : 609 Central African Republic = **225.22** in 2014 (<http://www.imf.org>)
- 101 994 USD per capita (Luxembourg) : 306 (Burundi) = **333.3** in 2015 (<http://www.imf.org>)
- 105 863 USD per capita (Luxembourg) : 243 (South Sudan) = **435.65** in 2017

Inequality in Income – the Lorenz Curve

- A curve is showing the proportion of national income earned by a given percentage of population.
- E.g. What proportion of national income is earned by the top 10% of the population.

The Lorenz Curve of Income Distribution



Inequality in Income – Gini Coefficient

- Gini coefficient - the proportion of the area taken up by the Lorenz Curve (A) in relation to the overall area under the line of equality (A+B).
- The measure of income distribution inequality.
- It ranges between 0 and 1 (or if multiplied by 100 – between 0 and 100%).

Inequality in Income – Gini Coefficient

- A low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution.
- 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income).
- The Gini coefficient requires that no one have a negative net income or wealth.

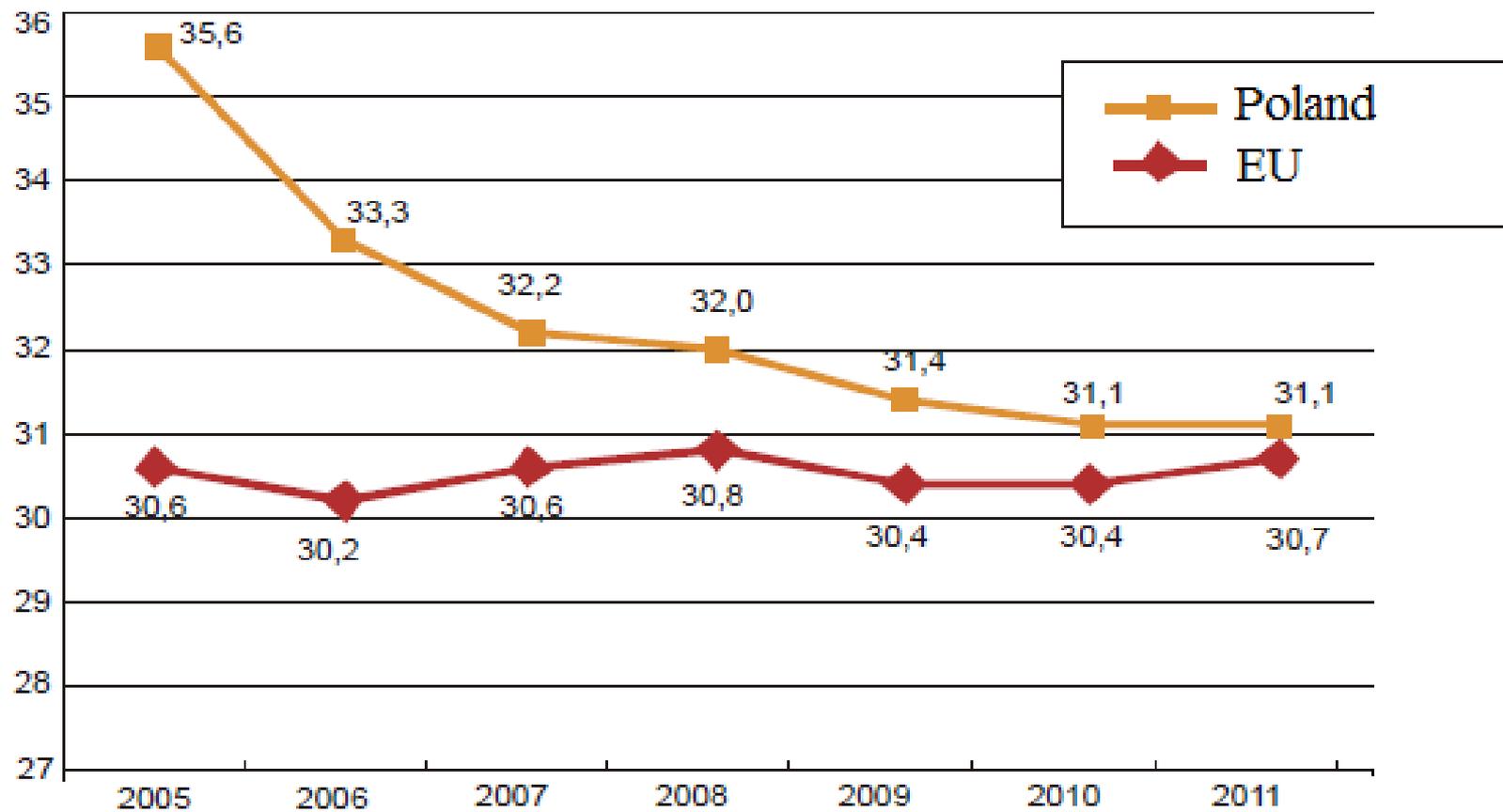
Income Gini Coefficient, 2010-2017

Source: Human Development Report 2018 (<http://hdr.undp.org>)

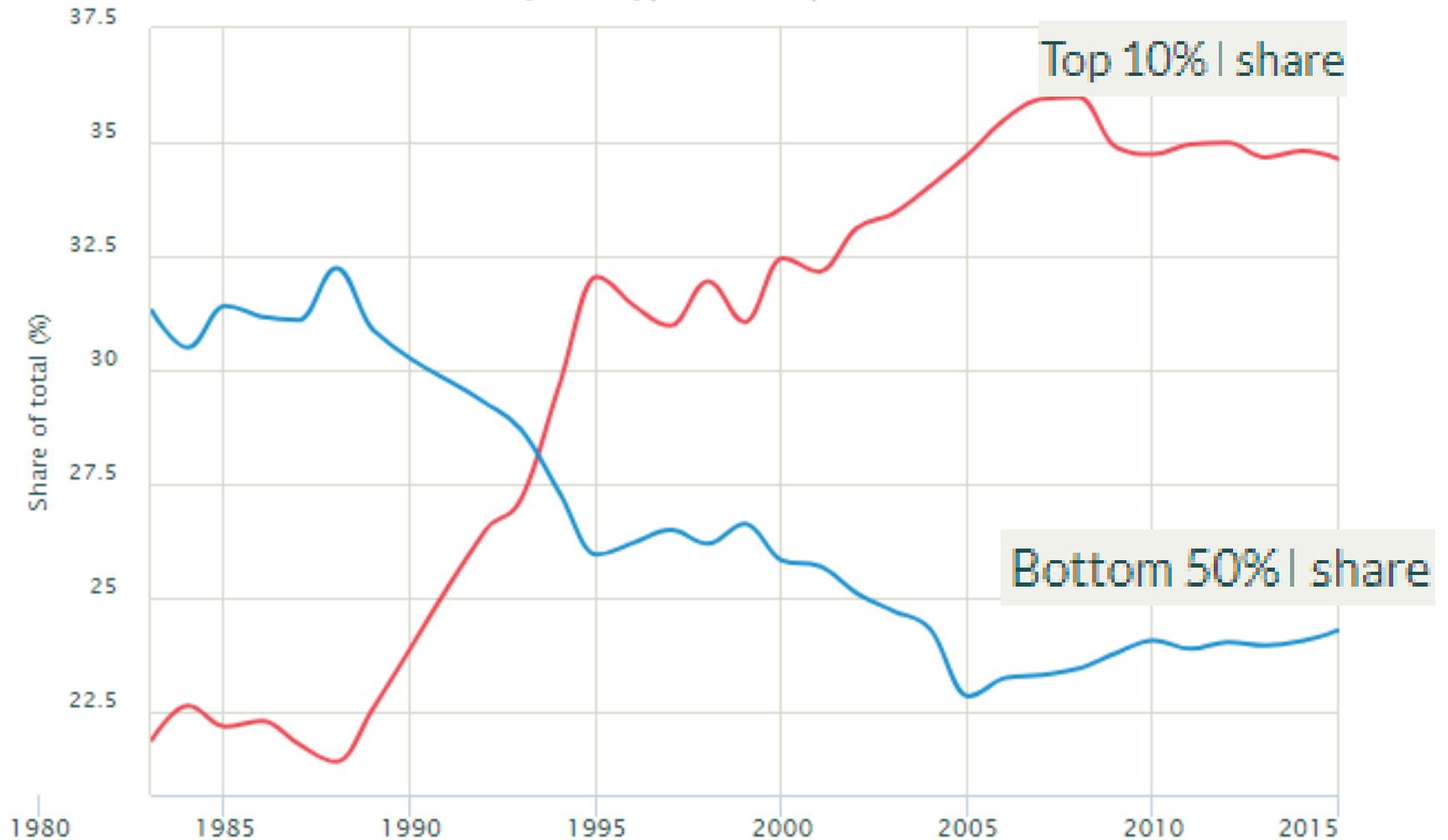
Azerbaijan	n.a.	Poland	31.8
China	42.2	Portugal	35.5
France	32.7	Spain	36.2
India	35.1	Turkey	41.9
Italy	34.7	Ukraine	25.0
Japan	32.1	Uzbekistan	n.a.
Korea	31.6	US	41.5

Income Gini Coefficient, 2005-2012, Poland and EU

<http://www.stat.gov.pl> (Central Statistical Office of Poland)



Income inequality, Poland, 1980-2016



Poverty

- *Poverty is the worst form of violence*
(Mahatma Gandhi)
- Poverty is the lack of basic necessities that all human beings must have: food, water, shelter, education, medical care, security, etc.

- **Absolute poverty** – a situation where individuals do not have access to basic requirements of life – food, shelter, clothing.
- **Relative poverty** – a situation where individuals are excluded from being able to take a part in what are considered the normal, acceptable standards of living in society.

Common characteristic of the poor

Globally, the poor tend to share several characteristic

- They suffer from malnutrition, poor health, low levels of education.
- They live in environmentally stressed areas, have poor access to technology and markets.
- They are more likely to be rural, agricultural, and have little or no land.
- Most poor come from large families with few income earners.
- They lack personal and political power.

Causes of poverty

- **Natural disasters** – destroy homes, businesses and crops, people loses their homes and their jobs.
- Diseases spreads very quickly, people die, cannot work, infrastructure (road and railways) are damaged making recovery of homes and businesses very difficult.
- Some developing countries are particularly prone to natural disasters due to the geography of the country e.g. floods in Bangladesh.

Causes of poverty

- **War and civil unrest**
- Government spending is on weapons and army wages.
- Family wage-earners are killed. Farms and businesses are destroyed.
- Basic services like education are disrupted. People leave their homes as refugees.
- Workers are killed or disabled by loss of limbs. They cannot work and pay tax.
- Without tax from individuals and businesses government cannot pay for hospitals, schools and roads.

Causes of poverty

- **Unfair trade and cash crops**
- Many developing countries employ all their land and people in producing just one kind of crop that is sold for cash to the rest of the world - for example tea, coffee, bananas, cocoa, nuts (these are cash crops).
- When supermarkets in rich countries want to buy these goods they insist on only paying a low price so they can make large profit. The farmers do not make a fair price for their crops.
- The governments of less economically developed nations producing these crops does not earn enough tax to pay for schools hospitals and roads.

Causes of poverty

- **National debt** – many less economically developed nations have borrowed large sums of money from wealthier governments.
- The countries have to pay interest on their debts.
- This means they cannot afford to spend enough on basic services like health and education; nor on things like transport or communications that might attract investment.

Causes of poverty

- **Food and education** - affordable, secure food supplies are vital. Malnutrition causes severe health problems, and can also affect education. Without education it is difficult to escape from poverty. This becomes a vicious circle – people who live in poverty cannot afford to send their children to school.
- **Diseases** such as HIV/AIDS and malaria causes great suffering and poverty in many less economically developed nations.

Measures of Poverty

- The most widely used measure of poverty is income poverty, using either a national poverty line or an international standard.
- The PPP \$1.90 (2015) (\$1.25, 2008) a day poverty line.

Measures of Poverty in Poland

- **The subsistence minimum**, regarded as the extreme poverty threshold, sets the level of the satisfaction of needs below which there is a biological threat to life or psychophysical human development.
- It is estimated by the Institute of Labour and Social Studies.
- **The social minimum** – the bundle of resources that a person needs in order to lead a minimally decent life in their society.

Measures of Poverty in Poland

- **„Legal” poverty line** is the amount, which, according to the social assistance act, provides eligibility for a monetary benefit from social assistance.
- **Relative poverty line** is 50% of the mean monthly expenditure determined at the level of all households estimated with the use of the original OECD equivalence scale.

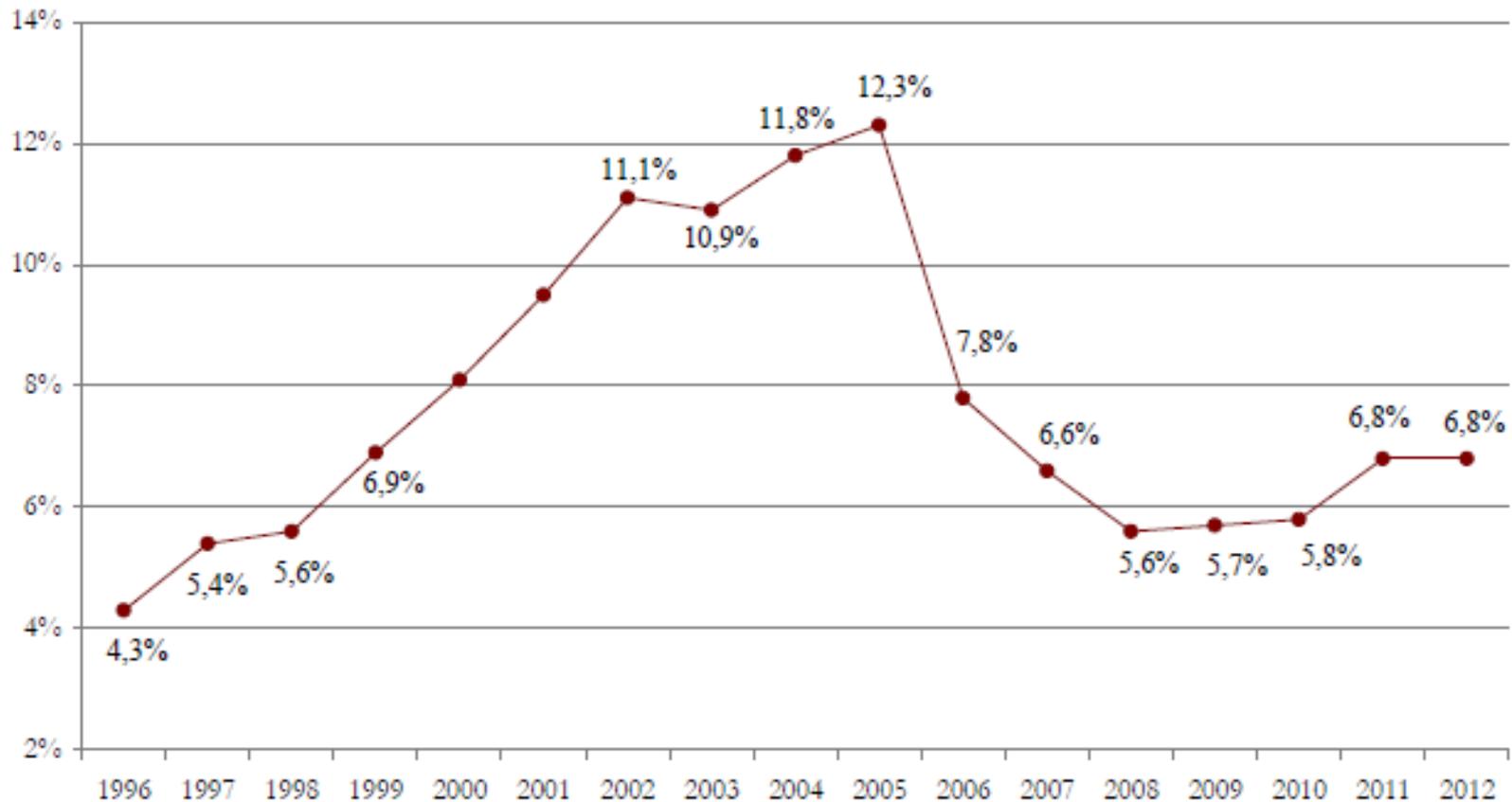
Poverty Lines, Poland, 2016-2018

<http://www.ipiss.com.pl> (Institute of Labour and Social Studies)

Specification	Subsistence minimum (per 1 person in PLN)			Social minimum (per 1 person in PLN)
	2016	2017	2018	2018
1-person employees' household	555.02	574.01	591.14	1168.31
2 adults	467.27	483.40	498.55	960.63
2 adults, 2 children	472.04	488.60	503.57	932.46
1-person retirees' household	527.30	544.03	560.01	1151.97

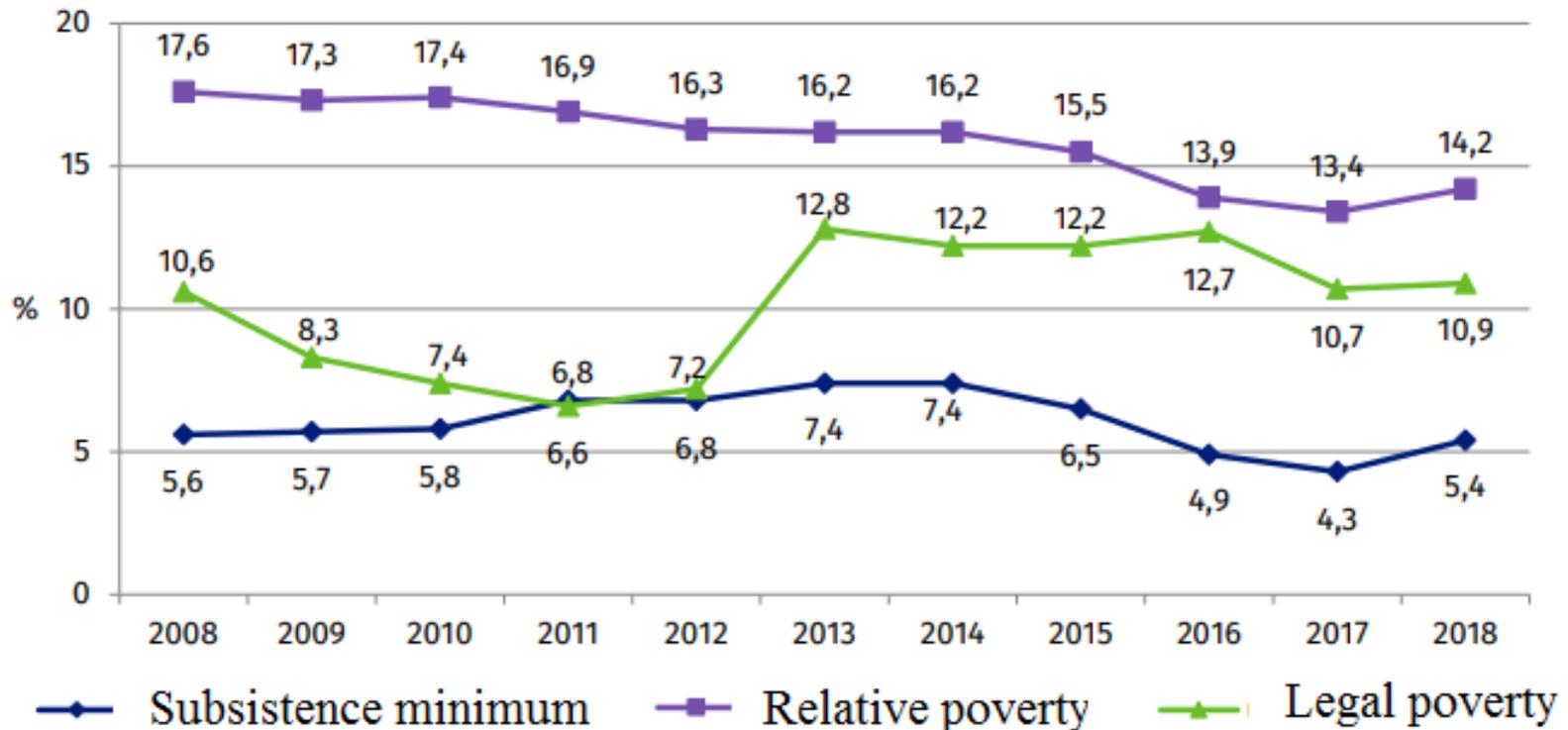
At-risk of Poverty Rates in Households - Subsistence minimum (%), Poland, 1996-2012,

<http://www.stat.gov.pl> (Central Statistical Office of Poland)



At-risk of Poverty Rates in Households (%), Poland, 2008-2018,

<http://www.stat.gov.pl> (Central Statistical Office of Poland, Statistics Poland)



Multidimensional Poverty Index (MPI)

- The dimensions of poverty go far beyond inadequate income – to poor health and nutrition, low education and skills, inadequate livelihoods, bad housing conditions, social exclusion and lack of participation.
- The Multidimensional Poverty Index (MPI) identifies multiple deprivations at the individual level in health, education and standard of living.
- MPI replaces the Human Poverty Index (HPI), published since 1997.

Multidimensional Poverty Index

- MPI shows how many people experience overlapping deprivations and how many deprivations they face on average.
- The MPI is the product of the multidimensional **poverty headcount** (the share of people who are multidimensionally poor) and **the average number of deprivations** each multidimensionally poor household experiences (the intensity of their poverty).

Dimensions of poverty	Indicator	Deprived if living in the household where...
Health	Nutrition	An adult under 70 years of age or a child is undernourished
	Child mortality	Any child has died in the family in the five-year period preceding the survey
Education	Years of schooling	No household member aged 10 years or older has completed six years of schooling
	School attendance	Any school-aged child is not attending school up to the age at which he/she would complete class 8
Standard of living	Cooking Fuel	The household cooks with dung, wood, charcoal or coal
	Sanitation	The household's sanitation facility is not improved or it is improved but shared with other households
	Drinking Water	The household does not have access to improved drinking water or safe drinking water is at least a 30-minute walk from home, round trip
	Electricity	The household has no electricity
	Housing	Housing materials for at least one of roof, walls and floor are inadequate
	Assets	The household does not own more than one of these assets: radio, TV, telephone, computer, animal cart, bicycle, motorbike or refrigerator, and does not own a car or truck.

Population in multidimensional poverty, 2006-2017

Source: Human Development Report 2018 (<http://hdr.undp.org>)

Country	MPI	Headcount (%)	Intensity of deprivation (%)	Population below poverty line (PPP \$1.9 a day) 2006-2016
Niger	0.591	90.59	65.29	44.50
South Sudan	0.581	91.92	63.20	42.70
Chad	0.531	85.86	62.28	38.40
Burkina Faso	0.520	84.01	61.92	43.70
Somalia	0.518	82.22	62.95	n.a

Definition of foreign aid

- Foreign aid is a transfer of resources from governments or public institutions of developed countries to governments of developing ones.
- Foreign capital flows can be divided into official and private.
- Official are divided into bilateral and multilateral flows.

Definition of foreign aid

- Official bilateral flows consist of capital provided by government of donor to government of recipient countries.
- Multilateral flows consist of capital flows from multilateral organisations such as OECD (Organisation for Economic Cooperation and Development), the International Monetary Fund (IMF), the World Bank.
- The official flows can take mainly form of grants or loans.

Main developments in the history of foreign aid

- 1940s - Marshall Plan and UN system (including World Bank). Reconstruction.
- 1950s - United States with Soviet Union. Food aid and projects.
- 1960s - Establishment of bilateral programmes. Technical assistance and budget support.
- 1970s - Expansion of multilaterals especially World Bank, IMF and Arab-funded agencies. Fall in food aid and start of import support.

Main developments in the history of foreign aid

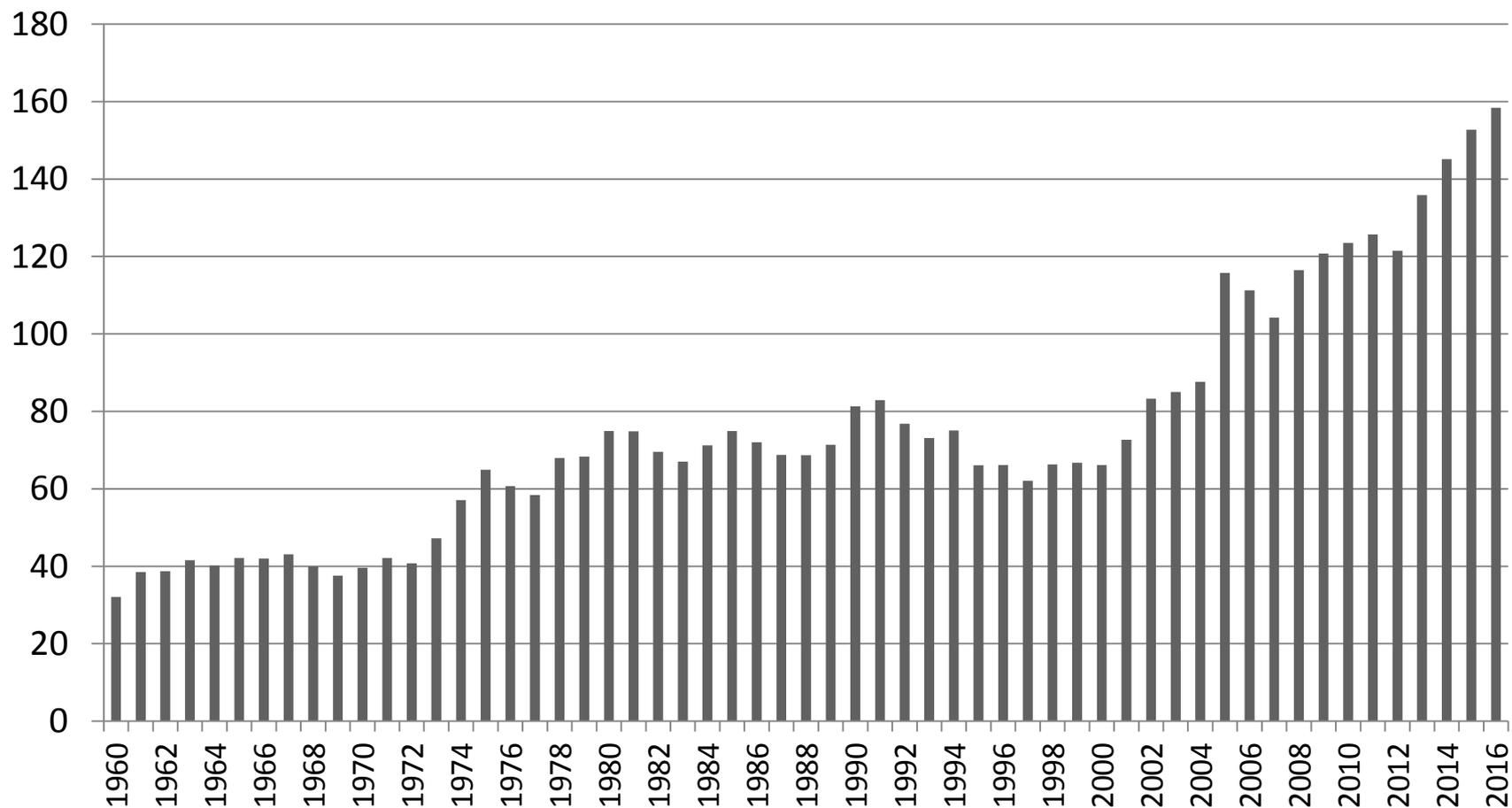
- 1980s – Rise of NGOs from mid-1980s. Macroeconomic reform. Financial programme aid and debt relief.
- 1990s – Eastern Europe become recipients rather than donors; emergence of corresponding institutions. Move toward sector support.
- 2000s – Emerging donors

- Development Assistance Committee defines foreign aid as official development assistance (ODA) and technical aid.
- ODA flows must satisfy all three of the following criteria
 - their primary objective must be development, thus it excludes military aid and private investment,
 - the terms and conditions of the financial package must be softer than those available on a commercial basis,
 - the flows should come from governmental agencies and go to governments of developing countries.

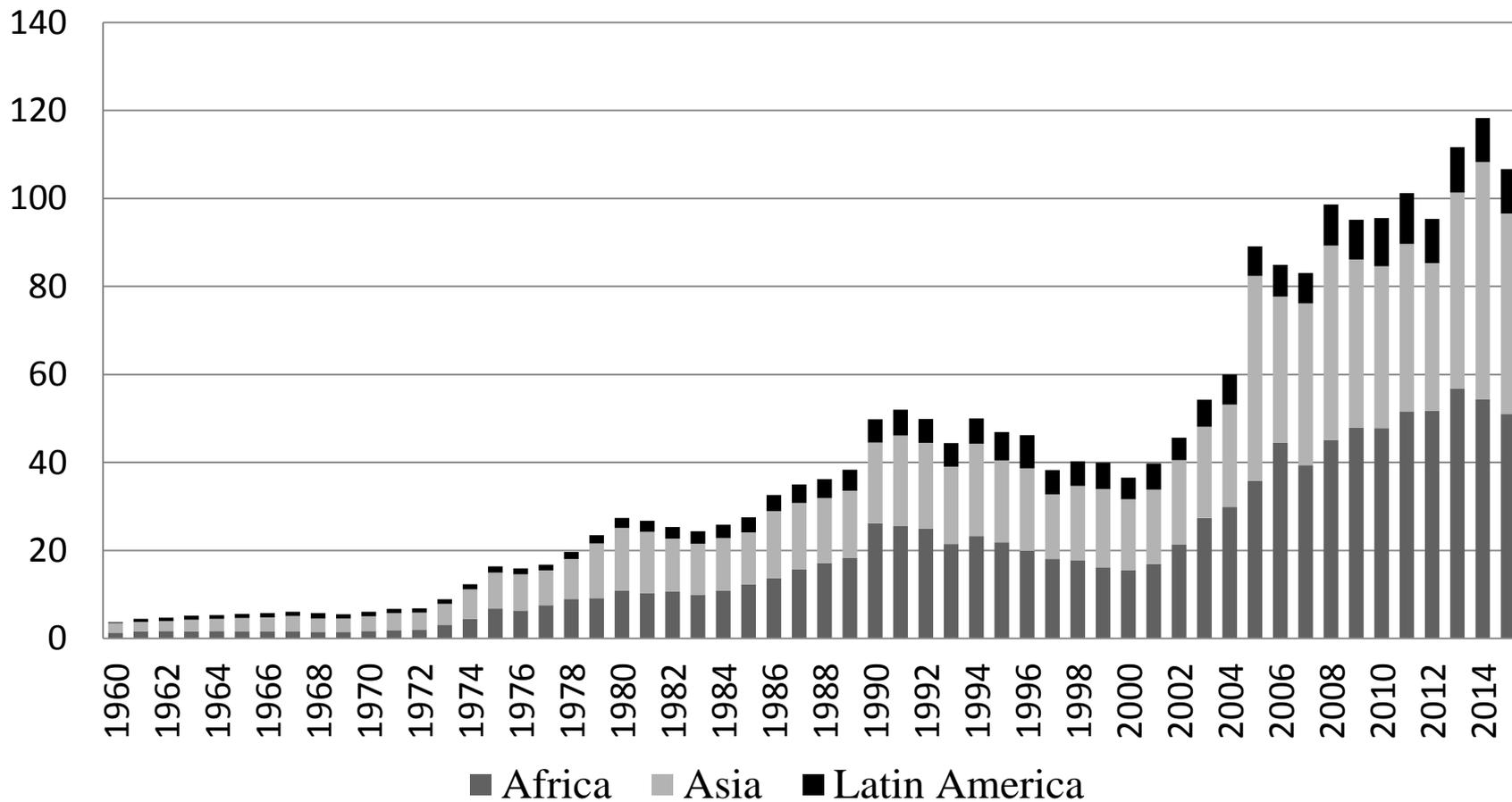
- Since the 1960s a huge increase in the volume of foreign aid for developing countries has been observed.
- Developed countries have spent more than 3 trillion USD (at constant 2010 prices) on official development assistance (ODA).
- Total ODA have been more than 100 billion USD per year from 2005.

Net ODA disbursement, Total DAC countries, 1960-2016, (constant prices 2010 USD, billion)

Source: <http://www.oecd.org>



Net ODA received by developing countries, 1960-2015, (current prices, USD billion)



Foreign aid and economic growth

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graph TD; A[Foreign aid and economic growth] --> B[No effect]; A --> C[Positive effect]; A --> D[Negative effect]; C --> E[unconditional]; C --> F[conditional];
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No effect

Positive effect

Negative effect

unconditional

conditional

Positive effect (unconditional)

- Papanek (1973) – 34 developing countries for the 1950s and 51 for the 1960s.
- Dowling and Hiemenz (1982) – 14 Asian countries for the 1970s.
- Mosley (1980) – the poorest countries (UK-aided countries in Africa) for the period 1970 to 1977.
- Levy (1988) – 28 Sub-Saharan countries in the years 1968-1982.

Positive effect (conditional)

Factors	Studies
<p>stable macroeconomic policy (good fiscal, monetary and trade policies)</p>	<p>The World Bank Report (1998) Durberry at al. (1998) Burnside and Dollar (2000) Hansen and Tarp (2000, 2001) Collier and Dollar (2002) Ali and Isse (2005)</p>
<p>terms of trade, the extent of export instability and climatic shocks</p>	<p>Guillaumont and Chauvet (2001)</p>
<p>geographic location</p>	<p>Dalgaard et al. (2004)</p>
<p>the size of the aid flows (optimal level 5%-45% of GDP)</p>	<p>McGillivray at al. (2006)</p>
<p>the type of aid (project aid financing (+), financial programme aid (-), technical assistance and food aid (0 or +))</p>	<p>Ouattara and Strobl (2008)</p>

- The first studies argue that the positive relationship between the foreign assistance and economic growth exists.
- The aid is necessary for economic development and poverty reduction in less developed countries.
- It supplements domestic savings and/or allows the access to foreign markets.

- Very often the relationship between foreign aid and economic growth is conditional and depends on many different factors:
 - specific condition in a recipient country,
 - macroeconomic policy,
 - geographical location,
 - levels of aid allocation,
 - aid modalities.

Negative effect

- Milton (1958),
- Griffin and Enos (1970), Weisskopf (1970),
- Paldam (1997) – excessive aid distorts the economy and leads to a low growth,
- Djankov et al. (2006) – aid reduces the level of democracy in the recipient countries,
- Rajan and Subramanian (2011) – aid inflows cause the real exchange rate appreciation and reduce the competitiveness of the exports.

- A number of researchers concluded that the foreign assistance is negatively correlated with economic growth.
- Aid is wasted, increases public consumption, removes private savings, rises corruption and aid-dependency of recipient countries.

No relationship between foreign aid and economic growth

- Mosley et al. (1987) – is impossible to establish any statistically significant correlation between aid and economic growth.
- Boone (1996) – aid has insignificant impact on poverty indicators such as the improvement of infant mortality or primary schooling ratios.
- Doucouliagos and Paldam (2008) – there are over one hundred papers supporting the view that the foreign assistance generates development in recipient countries but their results mostly are not statistically significant.

Country and a year of its independence	Period	ODA as % GNI (average)	Number of years with ODA 10% of GNI or more (since the independence)
Benin, 1960	1986-2014	10.6%	17
Burkina Faso, 1960	1974-2014	12.8%	36
Burundi, 1962	1971-2014	19.1%	38
	1980-2014	21.3%	
Chad, 1960	1974-2014	10.5%	23
Congo, Dem. Rep., 1960	2002-2014	17.7%	13
Djibouti, 1977	1991-2005	16.5%	14 (1991-2005)
Eritrea, 1993	1993-2014	18.3%	16
Ethiopia, 1941	1985-2014	10.7%	16
Gambia, 1965	1966-2014	14.9%	33
Ghana, 1957	1986-2005	10.8%	16
Guinea, 1958	1986-2014	9.2%	13 (1986-2014)
Guinea-Bissau, 1974	1974-2014	34.7%	40

Country and a year of its independence	Period	ODA as % GNI (average)	Number of years with ODA 10% of GNI or more (since the independence)
Equatorial Guinea, 1968	1980-1996	38.0%	18
Comoros, 1975	1975-2014	20.0%	33
Lesotho, 1966	1966-2014	10.8%	30
Liberia	1997-2014	54.8%	18 (1997-2014)
Madagascar, 1960	1986-2014	11.5%	18
Malawi, 1964	1964-2014	18.6%	46
Mali, 1960	1968-1988	15.0%	40
	1990-2014	14.8%	
Mauritania, 1960	1968-2014	18.5%	36
Mozambique, 1975	1987-2014	31.6%	28 (1980-2014)
Niger, 1960	1974-2014	13.6%	34
Central African Rep., 1960	1964-2014	12.3%	38
Cabo Verde, 1975	1980-2014	25.7%	35 (1980-2014)

Country and a year of its independence	Period	ODA as % GNI (average)	Number of years with ODA 10% of GNI or more (since the independence)
Kiribati , 1979	1979-2014	25.2%	36
Micronesia, 1986	1993-2013	40.7%	21 (1993-2013)
Palau , 1994	1994-2014	39.4%	19
Papua-New Guinea, 1975	1975-2013	9.6%	19 (1975-2013)
Samoa, 1962	1997-2014	12.0%	14 (1997-2014)
Timor-Leste, 2002	2002-2014	13.8%	6
Tonga, 1970	1981-2014	16.9%	31 (1981-2014)
Tuvalu, 1978	2001-2013	35.5%	13 (2001-2013)
Vanuatu , 1980	1980-2013	21.3%	34
Marshall Islands, 1979	1995-2013	35.9%	19 (1995-2013)
Solomon Islands, 1978	1978-2014	26.4%	33
Guyana , 1966	1966-2014	12.7%	20
Haiti, 1804	2004-2014	16.6%	11 (2004-2014)

ODA from all donors, 2001-2015 (current US\$)

Source: <http://data.worldbank.org>

Country	Average ODA per person	Country	Average ODA per person
Tuvalu	1873.2	Vanuatu	325.4
Solomon Islands	386.4	Liberia	144.9
Kiribati	369.4	Afghanistan	144.8
São Tomé and Príncipe	252.4		

Triangular development cooperation

- Triangular/trilateral cooperation may be understood as a type of development cooperation involving three partners.
- Partnerships between DAC donors and providers of South-South cooperation to implement development cooperation programmes/projects in beneficiary countries.
- Providers of South-South cooperation participate in triangular cooperation with countries from their region or across continents.

Triangular development cooperation

- North-South cooperation is sometimes difficult to apply in recipient country because of huge gap between recipient and provider countries.
- Southern contributors are considered to have more relevant experience in responding to the needs and problems of recipient countries.
- The third country benefits from the expertise of an experienced donor and an emerging country that has successfully undergone similar changes.
- Triangular cooperation provides more applicable knowledge and technology.

Bank for the Poor

- The Grameen Bank was set up in 1976
- Dr. Muhammad Yunus – founder of the GB
- 2006 – Nobel Peace Prize
- The GB offers small loans (microcredit) to the impoverished without requiring collateral.

Bank for the Poor

- It promotes credit as a human right.
- Its mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women.
- Most distinctive feature of Grameencredit is that it is not based on any collateral, or legally enforceable contracts. It is based on “trust”, not on legal procedures and system.
- It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.

Bank for the Poor

- It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be “not creditworthy”. As a result it rejected the basic methodology of the conventional banking and created its own methodology.
- It provides service at the door-step of the poor based on the principle that the people should not go to the bank, bank should go to the people.

Bank for the Poor

- In order to obtain loans a borrower must join a group of borrowers.
- Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.
- All loans are to be paid back in instalments (weekly, or bi-weekly).
- Simultaneously more than one loan can be received by a borrower
- It comes with both obligatory and voluntary savings programmes for the borrowers.

Bank for the Poor

- Grameencredit gives high priority on building social capital. It is promoted through formation of groups and centres, developing leadership quality through annual election of group and centre leaders, electing board members when the institution is owned by the borrowers.
- The “sixteen decisions”.

Sustainable development goals

- In 2015, countries adopted **the 2030 Agenda for Sustainable Development** and its **17 Sustainable Development Goals**.

Sustainable development goals

- Goal 1: End poverty in all its forms everywhere
- Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- Goal 3: Ensure healthy lives and promote well-being for all at all ages
- Goal 4: Ensure inclusive and quality education for all and promote lifelong learning
- Goal 5: Achieve gender equality and empower all women and girls
- Goal 6: Ensure access to water and sanitation for all

Sustainable development goals

- Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all
- Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all
- Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation
- Goal 10: Reduce inequality within and among countries
- Goal 11: Make cities inclusive, safe, resilient and sustainable
- Goal 12: Ensure sustainable consumption and production patterns

Sustainable development goals

- Goal 13: Take urgent action to combat climate change and its impacts
- Goal 14: Conserve and sustainably use the oceans, seas and marine resources
- Goal 15: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss
- Goal 16: Promote just, peaceful and inclusive societies
- Goal 17: Revitalize the global partnership for sustainable development