Global poverty at the crossroads[1]

For more than thirty years, Australian-born lawyer Philip Alston has held senior roles at the United Nations, working in areas such as human rights, children's rights, and extra-judicial executions. Since June 2014 he has served as UN Special Rapporteur on 'extreme poverty and human rights', with a mandate to give 'greater prominence to the plight of those living in extreme poverty and to highlight the human rights consequences of the systemic neglect to which they are all too often subjected'.

In that capacity, Alston has written a series of searing reports – including some highly critical of the UN itself, and its agencies. In one of those, he charged that "If the United Nations bluntly refuses to hold itself accountable for human rights violations, it makes a mockery of its efforts to hold governments and others to account".

Alston's most recent report to the UN Human Rights Council, *The Parlous State of Poverty Eradication*, is in similar vein. According to Alston, 'the world is at an existential crossroads involving a pandemic, a deep economic recession, devastating climate change, extreme inequality and an uprising against racist policies', running through all of which is 'the long-standing neglect of extreme poverty by many governments, economists and human rights advocates'.

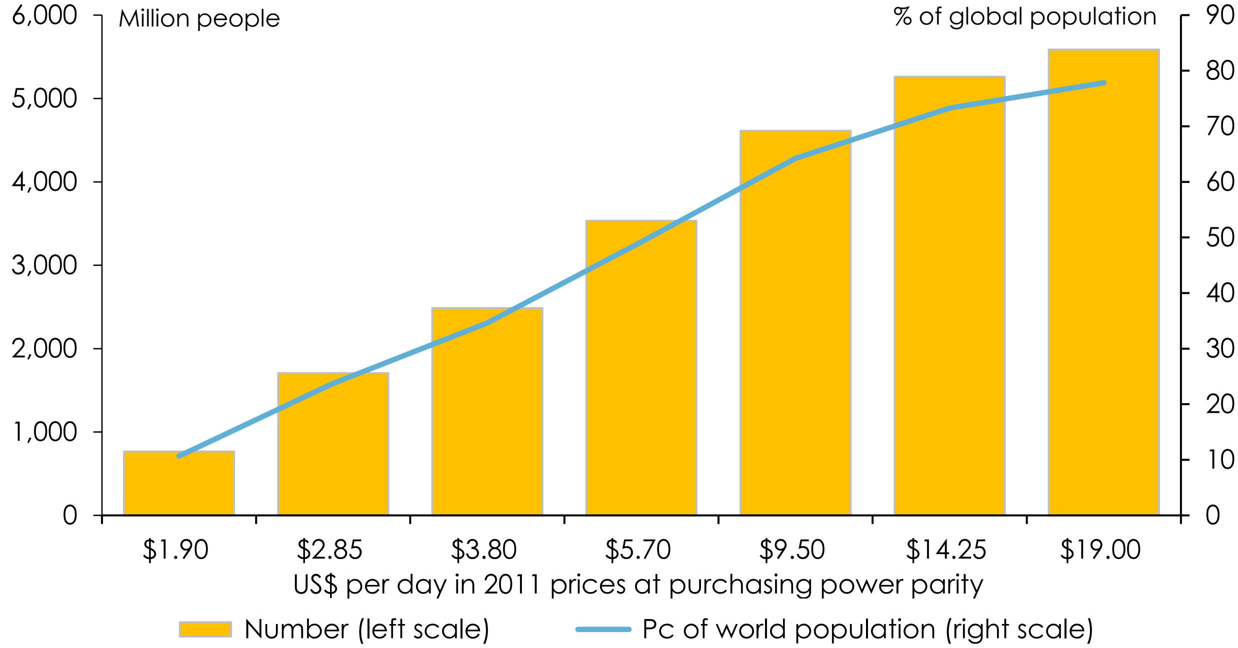
Alston's report directly challenges what he calls "the mainstream pre-pandemic triumphalist narrative" that "extreme poverty is nearing eradication". Such claims rely, he says, in one way or another on the World Bank's international poverty line, which is currently set at US$1.90 in 2011 prices and converted into other currencies at 'purchasing power parity' (PPP) exchange rates. It is derived from the national poverty lines used in 15 of the poorest countries in the world (most of them in sub-Saharan Africa). Alston describes this as representing a 'staggeringly low standard of living, well below any reasonable conception of a life with dignity'. US$1.90 in 2011 prices is equivalent to A$2.31 in today's Australian dollars (converted from US dollars at purchasing power parity exchange rates) – which is in turn equal to A$16.20 per week, a sum well below the current Australian Henderson poverty line of (for example) $542.90 per week for a single person, or $1,109.75 for a two-parent household with two children. It is less than half the level of the former Newstart Allowance of A$40 per day, which is now widely regarded across the political spectrum as inadequate.

Alston is hardly the first to make this point. Ten years ago, for example, the Nobel Prize-winning economist Angus Deaton gave a lengthy and detailed critique of the way in which the World Bank's measure was compiled, and its use in comparisons of poverty between countries (and especially between 'rich' and 'poor' countries). Three years ago, in a presentation to an event hosted by Oxfam at Tasmania's Government House, I observed that the proportion of the world's population 'living in poverty' was much higher, and had fallen by much less, if one used higher (but still very low) poverty lines than the World Bank's preferred measure (see Chart 1).

Alston makes the point, as I also did in 2017, that most of the claimed reduction in global poverty is attributable to China, excluding which "the global headcount under a US$2.50 line barely changed at all between 1990 and 2010"; and if all of East Asia and the Pacific are excluded, "the number of people living in poverty would have increased from 2.02 billion to 2.68 billion between 1990 and 2015 under a US$5.50 line" (US$5.50 per day in 2011 prices is equivalent to A$6.70 per day, or $46.89 per week, in contemporary Australian dollars).

[1] Originally published on *Inside Story*, 21st July 2020.

Chart 1: Total number of people living below alternative 'poverty lines' in 2013



Source: The World Bank, Povcalnet.

Based on more realistic measures, Alston says, "the world is not even close to ending poverty".

And he points to two developments which are likely to see the number of people living in poverty increase, rather than decline, from its current level over time.

The first of these is climate change, which the World Bank has acknowledged could "force more than 100 million people into extreme poverty by 2030". And the second is of course Covid-19, which the World Bank last month estimated could push between 71 million and 100 million people into extreme poverty, using the US$1.90 a day benchmark (see Chart 2). Using less extreme benchmarks, the impact is much greater: the number of people pushed into poverty using a US$5.50 benchmark is estimated to be between 177 and 233 million.

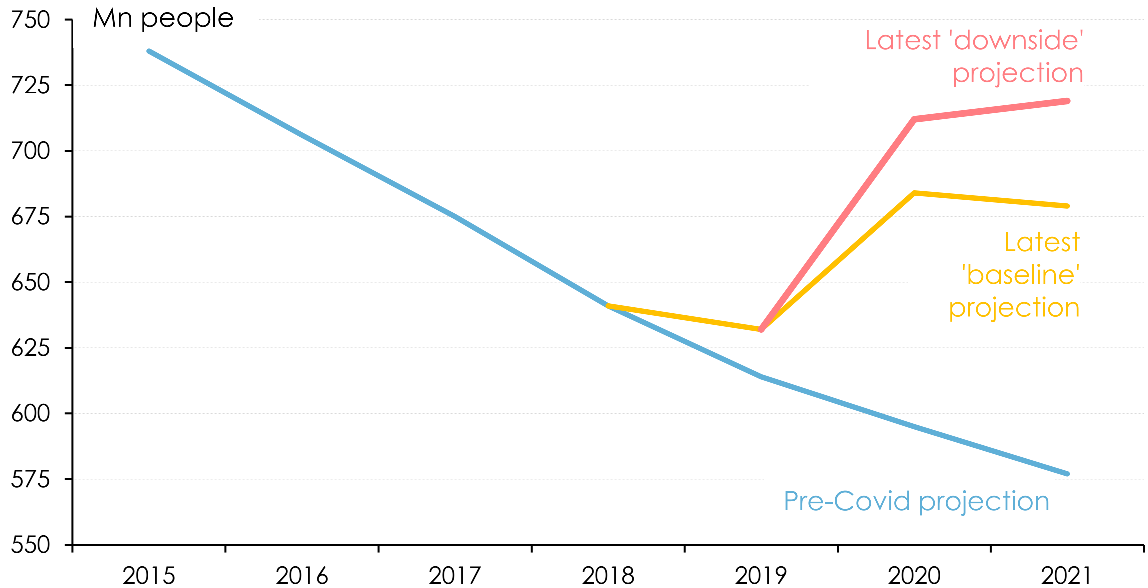
Alston believes there are five things that should be done if the UN's first Sustainable Development Goal of 'an end to poverty in all its forms everywhere' by 2030.

First, he says, is a need to "reconceive" the relationship between economic growth and the elimination of poverty. "In too many cases", he argues, "the promised benefits of growth either don't materialize, or aren't shared".

Second, he asserts that "significant redistribution" of income and wealth, within countries (as distinct from among them) is "indispensable" if "extreme inequality" is to be reduced, citing a World Bank working paper published last month which concluded that "reducing each country's Gini index [a widely-used measure of inequality] by 1% per year has a larger impact on global poverty than increasing each country's annual growth 1 percentage point above forecasts".

Third, he argues for taxation to be "front and centre in any set of policies to eliminate poverty", both as "a symbol of solidarity and burden-sharing, and as a reflection of a deeper set of values".

Chart 2: The impact of Covid-19 on global poverty



Source: Daniel Mahler et al, *Updated estimates of the impact of COVID-19 on global poverty*, The World Bank, 8th June 2020.

In support of that aim, Alston suggests that governments "should publish income, wealth, and effective tax rates of top earners, and require multinationals to publish country-by-country reporting data".

Fourth, he asserts that "large scale debt forgiveness" (that is, of loans to low- and middle-income countries by high-income countries and international financial institutions) is "necessary", especially in the wake of Covid-19". Members of the G-20 (of which Australia is one) agreed in April to suspend debt service payments totalling US$11.5bn on 'official' debt owed by 76 of the world's poorest countries until the end of this year. However, that agreement doesn't affect the US$13bn owed to private sector creditors; and it falls well short of outright forgiveness.

Finally, Alston calls for 'universal social protection', something which he says is "incompatible with the 'neoliberal' policy prescriptions that shape the overall approach of the international financial and economic regimes" and with the "austerity policies which have dominated much of the landscape since 2010".

For all of these things to happen, Alston believe that, rather than relying on the private sector to defeat global poverty – which he calls "a blind alley" – the role of government needs to be "centred". He is particularly critical of the role played by "billionaire philanthropists", claiming that they "jeopardize governments' capacity to set priorities … and implement programs", are "less likely to expose and tackle unjust underlying structures", and represent "a form of private political power … in which wealth can dictate policy without regulation or accountability". Instead, he says, "governments need to listen more attentively" to "people who have experienced poverty" rather than "shutting them out of policymaking processes". An "urgent first step" towards this is replacing the World Bank's poverty line with "the goal of realizing the human right to an adequate standard of living", as indicated by "a broad dashboard of multidimensional indicators that reflect modern expectations of a life free of poverty".

While Alston's report is written with eloquence, reason and passion, it doesn't really say anything that hasn't been said by many others before. And it is addressed to an organization which, as Alston implicitly acknowledges, has failed to do much more than 'tick boxes'; one which has long been chronically mismanaged, and which, in the words of one observer, has become "a kind of refuge for officials involved in serious corruption cases". It is difficult to conceive of the United Nations ever successfully tackling global poverty (or any other issue) if doing so runs counter to the perceived self-interest of one or more of the five nations possessing the veto power.

That's not to say that Alston's report might not help change the way others think.

Earlier this month, 83 millionaires from seven countries (sadly, none of them from Australia) called on their governments to "raise taxes on people like us. Immediately. Substantially. Permanently" in order to solve the problems "caused, and revealed, by Covid-19" that, in their view (like Alston's) "can't be solved with charity, no matter how generous".

The OECD this month released new data highlighting "the misalignment between the location where profits are reported and the location where economic activities occur", with multinationals in 'investment hubs' reporting "a relatively high share of profits compared to their share of employees and tangible assets". To some, that will be a (re-)statement of the bleeding obvious: but it precisely fulfils one of Alston's recommendations noted earlier, and it strengthens the evidence base for the Base Erosion and Profits Shifting (BEPS) agenda that the OECD has been championing.

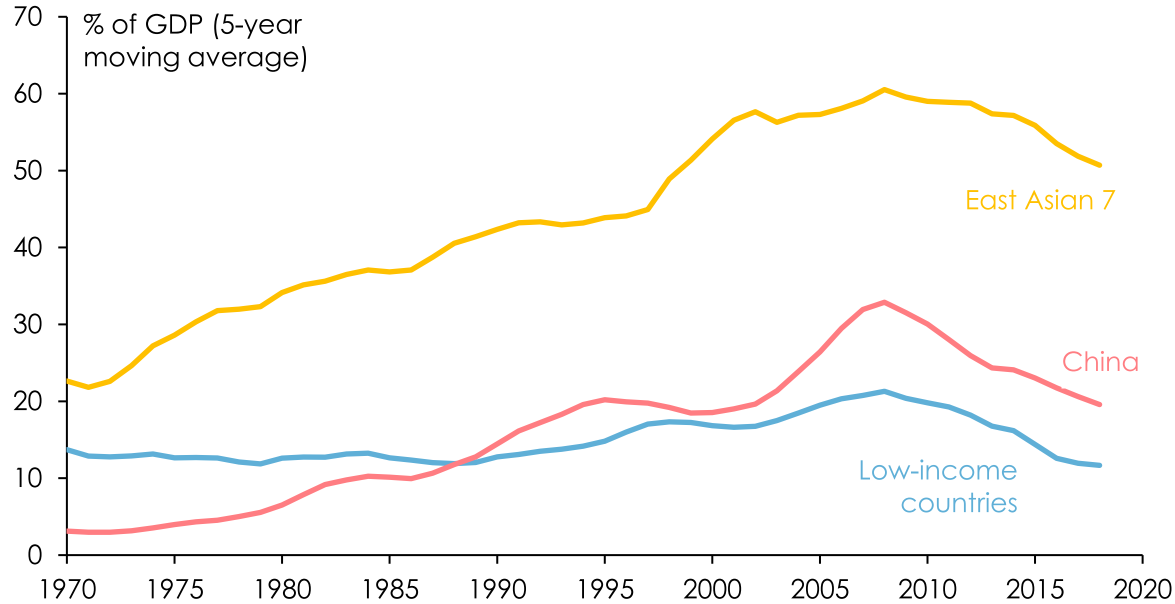
But it has long surprised me that there is one sphere in which governments *could* do more to strengthen the revenue base available to governments of low- and middle-income countries, but which is almost never mentioned by anti-poverty advocates, and which is conspicuously absent from Alston's report. And that is the potential for these countries to generate additional income for their citizens, and revenue for their governments, by removing long-standing barriers to those countries' ability to export more to rich countries; and by abandoning policies which artificially depress the prices which poor countries receive for the products which they do sell on global markets.

The East Asian states which successfully transitioned from being 'low-income' countries in the 1950s and 1960s to 'middle' or 'high-income' countries by the 21st century did so in large part through exports (Chart 3). One of the hallmarks of countries that have remained in the 'low-income' category has been their inability to raise their national incomes, and the living standards of their people, in the same way. Indeed, in the past five years, the share of low-income countries' GDP derived from exports of goods has been lower than it was during the 1970s.

In some cases that outcome has been largely the consequence of poor policy choices by the governments of those countries. But in many others it is at least in part a result of restrictions on imports of the products in which 'low-income' countries specialize imposed by rich countries; or the policies of rich countries to subsidize the production of commodities in which they don't have any particular comparative advantage, and which have had the effect of depressing the prices which low-income producers of those commodities receive on world markets.

Since 2009, according to the Centre for European Policy Research's Global Trade Alert, rich countries have implemented almost 6,000 trade policy measures considered 'harmful' to international trade, compared with fewer than 900 'liberalizing' measures.

Chart 3: Merchandise exports as a share of GDP, 1970-2018



Note: 'East Asian 7' are Korea, Hong Kong, Singapore, Malaysia, Thailand, Indonesia and the Philippines.
Source: The World Bank; author's calculations.

While more of these 'harmful' measures have been directed at China than at any other single country, Global Trade Alert identifies more than 40% of them as being 'harmful' to countries classified as 'low income' by the World Bank. 393 of them were directly harmful to India (which, it should be acknowledged, has been quite diligent in pursuing harmful trade policies itself); 236 were harmful to South Africa; more than 100 were harmful to each of Honduras, Guatemala, Costa Rica and the Dominican Republic; 27 were harmful to Madagascar, one of the poorest countries on Earth.

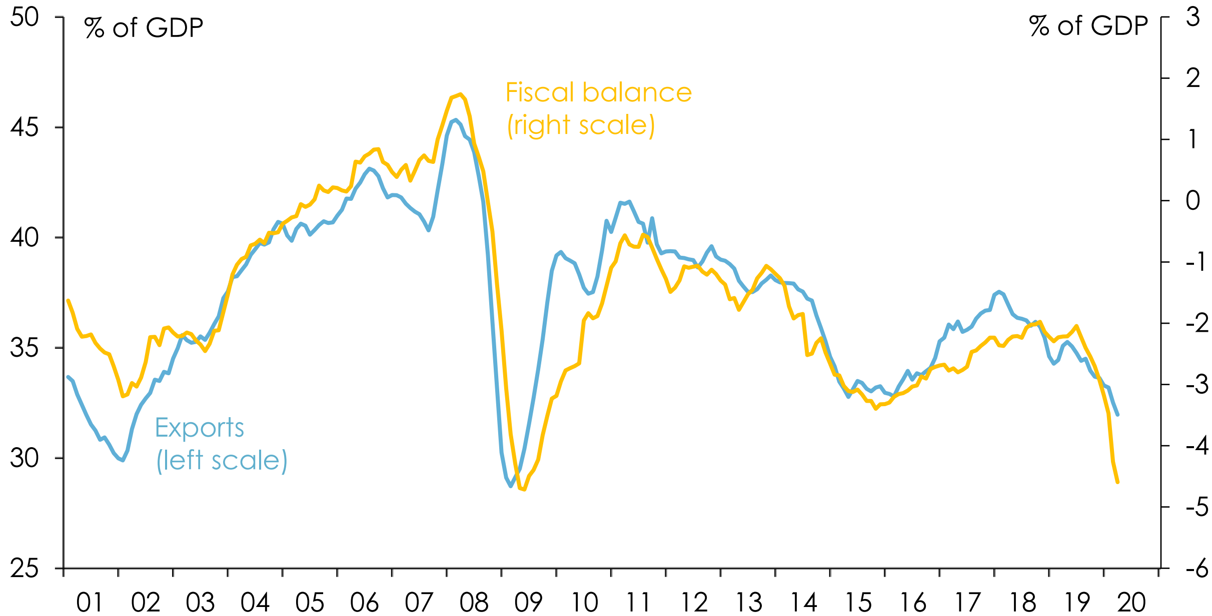
According to OECD estimates, OECD member countries spent US$2.4 trillion over the past decade subsidizing agricultural production (of which the EU accounted for $1 trillion, Japan $419 bn, the US $357 bn, Switzerland $64bn, Canada $49bn and Norway $36bn). This compares with US$1.4 trillion in official development assistance to developing countries by the governments of the 24 members of the OECD's Development Assistance Committee.

One of the principal side-effects of these massive subsidies to agricultural production in rich countries is to put downward pressure on the prices of subsidized products, especially when production of those products exceeds what can be sold in rich countries, resulting in the surplus being 'dumped' on global markets.

And that, together with other discriminatory trade measures enacted by rich countries, deprives the governments of developing countries of revenue that they could have used to provide more or better services to their citizens. As Chart 4 shows, there is a strong correlation between developing economies' export earnings and their fiscal positions.

And yet nowhere in his report does Alston call attention to the impact which the trade or agricultural subsidy policies of rich countries have had in entrenching global poverty, or plead for major changes to those policies.

Chart 4: Export revenue and government fiscal balances, developing economies



Note: Data are shown as six-month moving averages. *Source:* Jonathan Anderson, *MMT and Emerging Markets*, Emerging Advisors Group, 14th July 2020.

He's hardly Robinson Crusoe in that regard: nor does one ever see demonstrators, protesting outside gatherings of leaders or ministers of rich countries such as the G7, chanting or holding banners and placards demanding changes to the trade or agricultural subsidy policies of rich nations which do so much harm to the world's least-developed countries.

And there is a risk, which Alston doesn't mention in his dire warnings about the likely consequences of Covid-19 for the people of the world's poorest countries, that rich countries will, in the wake of the pandemic, adopt trade policies which are even more inimical to the interests of developing economies, in the name of ensuring 'greater self-sufficiency' in the supply chains of so-called 'strategic products'.

It's one thing for rich countries, including Australia, to want to reduce their dependence on a single supplier such as China for personal protective equipment, or medicines. But that shouldn't be used as an excuse to favour local production (which could be just as vulnerable to interruptions from, for example, natural disasters or industrial accidents) over imports – especially from poorer countries. Nor should it be used as an excuse to take an unduly expansive view of what products should be designated as 'strategic'.

Moreover, given the dire condition in which the pandemic (and the severe recessions induced by the measures which have been deemed necessary to respond to it) is likely to leave the public finances of rich countries, any success which rich country governments are likely to achieve in mobilizing public support for increases in taxation is likely to be applied to domestic needs, rather than the needs of those in the world's poorest countries – much as people of good will, including Alston, might wish it were otherwise.