

Global Poverty and Inequality

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VIOLENT street demonstrations against 'globalism' have made world headlines. The protesters are diverse but, in short, they blame the existing world trading and financial system for creating and perpetuating global inequalities.

WHERE IS THE TRUTH?

It is difficult for the general public to comprehend what is at stake here. The subject is complex and there are many conflicting and emotional statements.

Sound statistics would help. But what we have been getting are estimates that have propaganda rather than analytical value.

In its latest *Economic Roundup*, the Federal Treasury cuts through the debate. It examines the available statistics to find out:

- what the figures actually tell us; and
- what makes the difference between those countries that stay poor and those that progress and get rich.

NEARLY EVERYONE IS BETTER OFF

The last century has seen *per capita* income growth in all four quartiles of countries graded by income (see Chart).

Even the poorest quartile at the end of the century was significantly better off than the second richest at the start.

Broader measures confirm the trend. In 1870, Australian life expectancy was 48 years—the second highest in the world. By the mid-1990s the average life expectancy in developing countries was 65 years.

On the UN Human Development Index, an even broader measure of well-being, Australia led the world in 1870. Its index number then would now rank 127th.

AND THE RELATIVE GAP IS NARROWING

Also, from the late 1960's, the relative gap between the rich and poor seems to have been narrowing.

Global inequality appears to have peaked about the year 1968. Between 1968 and 1998, the ratio of the income of the richest to the poorest group of countries decreased from 15:1 to 13:1. The income of the poorest more than doubled while that of the richest grew by three-quarters.

Moreover, 25 years ago, almost half of the world's population were in the poorest 20 countries. The poorest 20 now contain only 7.3 per cent of the world's population.

LIES, DAMN LIES AND STATISTICS

Why the assertions of growing inequality which fuel the protests?

Treasury notes that one reason is that consistent statistics are not used. Simplistic exchange-rate comparisons are made, and these significantly underestimate true purchasing power in developing countries.

Again, even while poorer countries grow faster than the rich, the absolute gap will continue to widen for a while because rich countries also grow, and they grow from a higher income base.

Finally, there continue to be very poor countries, mainly in Africa, that are making little progress and a substantial number of people, therefore, remain in extreme poverty.

WHY DO COUNTRIES DO BETTER OR WORSE?

Many developed countries are better-off because they had a 150-year start on the industrial growth path.

But more important now is the fact that the countries that are wealthy or that are catching up quickly share a few simple characteristics. They have stable, honest institutions and governments. They have open economies and clear property rights. They are not centrally planned. And they have peace. It is a sad fact that most of the seriously poor nations are at war within their own borders.

THE WRONG SUSPECT IS ON TRIAL

The Treasury paper tries to remove some of the major statistical misconceptions which are held even by such exalted bodies as the UN and the World Bank. In this, it makes a first step, at least, to see history as it happened and the future challenge as it is.

Blaming globalism for inequality is a tragic mistake and could have tragic consequences. There *is* serious poverty in many nations but there is also great progress. Dismantling the multilateral trading system will damage all countries—but most of all the poorest.

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