

The Strategic Significance of Global Inequality

By **Jeffrey D. Sachs**

About the Author

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While the United States enjoyed rapid economic growth during the past 20 years, many poor countries, including some of the world's poorest in sub-Saharan Africa, experienced a generation of outright decline in living standards. And while private consumption—spending per capita in the United States rose by 1.9 percent per year from 1980–1998, such spending declined on average by 1.2 percent per year in sub-Saharan Africa (World Bank, 2000). Is there a “strategic significance” to global inequalities in income levels and economic growth? And, if so, which policies might the United States pursue to address those strategic concerns? Focusing on the scope and limitations of U.S. foreign assistance as a policy instrument to address global income inequalities is illuminating.

The economic success of developing countries enhances the well-being of the United States, which has and should more actively deploy policy instruments to help support economic success abroad. National

interests in successful economic growth abroad are multifaceted. Some of these interests are basically economic: the economic success or failure of developing countries determines the gains from trade and investment that the United States reaps in its economic relations with those countries.

However, the ramifications for the United States of good or bad economic performance among poor countries go beyond direct economic returns. As a general proposition, economic failure abroad raises the risk of state failure as well. When foreign states malfunction (in the sense that they fail to provide basic public goods for their populations), their societies are likely to experience steeply escalating problems that spill over to the rest of the world, including the United States. Failed states are seedbeds of violence, terrorism, international criminality, mass migration and refugee movements, drug trafficking, and disease.

If poor countries had reliably stable and functional state institutions, global poverty

would remain a powerful humanitarian concern but would probably not be a strategic priority of the United States. Alas, poor economic performance abroad has the potential to translate into state failure that, in turn, jeopardizes significant U.S. interests. If the United States wants to spend less time responding to failed states, as the Bush administration has stated, it will have to spend more time helping them achieve economic success to avert state failure. The United States has certain (albeit limited) economic policy instruments at its disposal to help prevent state failure abroad. Foreign assistance can play an important role in certain contexts, but the United States has not used it well for decades.

Foreign Economic Performance and U.S. Strategic Interests

Americans would dearly love to believe that the United States can be an island of stability and prosperity in a global sea of poverty and unrest. History, however, continues to prove otherwise. One common occurrence has been that economic crisis abroad leads to a collapse of a foreign state's authority abroad, which in turn has adverse consequences for the United States. The examples are legion. The rise of the Bolsheviks to power in 1917 took place in the wake of an economic collapse of wartime czarist Russia. The rise of Hitler in 1933 occurred in the midst of the Great Depression, which affected Germany especially hard because of its large foreign debt. More recently, Yugoslavia disintegrated into regional war not only because of interethnic conflicts, but also because of an economic collapse and the descent of the former federal state into hyperinflation in the late 1980s. In turn, political adventurers such as Slobodan Milosevic used the economic collapse to grab power. Iraq's declining economic fortunes and rising debt burdens following the Iran-Iraq War of the 1980s prompted, at least in part, Saddam Hussein's invasion of Kuwait in 1990.

In the 1990s, most of the world's violent conflicts, which have been related in one form or another to deep economic crises and their attendant state failures, have occurred in Africa.¹

I do not want to commit the elementary fallacy of attributing all political failures to economic crises. The shah of Iran was knocked from power in 1979 in the midst of an oil boom. Tracing the rise of Lenin or Hitler to power on the basis of economics alone would be fatuous. Yet, in practice, economic failure abroad undoubtedly matters greatly and can translate into very large costs for the United States in many spheres.

The most comprehensive study of state failure, carried out by the State Failure Task Force established by the Central Intelligence Agency in 1994, confirms the importance of economic underpinnings to state failure (State Failure Task Force, 1999). The task force gave formal definition to state failure (as a case of revolutionary war, ethnic war, genocides or politicides, or adverse or disruptive regime changes) and counted all cases during 1957-1994 in countries of 500,000 people or more. The task force identified 113 cases of state failure. Of all the explanatory variables examined, three were most significant: (1) *infant mortality rates*, suggesting that overall low levels of material well-being are a significant contributor to state failure; (2) *openness of the economy*, in that more economic linkages with the rest of the world diminish the chances of state failure; and (3) *democracy*, with democratic countries showing less propensity to state failure than authoritarian regimes.

The linkage to democracy has another strong economic aspect, however, because other research has shown strongly that the probability of a country being democratic rises significantly with its per capita income level (Barrow, 1999). In refinements of the basic study, the task force found that in sub-Saharan Africa, where many societies live

Editor's Note

A previous version of this piece appeared as "The Strategic Significance of Global Inequity" in *The Washington Quarterly* 24(3) (2000, Summer), pages 187-198. © 2001 by the Center for Strategic and International Studies (CSIS) and the Massachusetts Institute of Technology. Used with permission.

on the edge of subsistence, temporary economic setbacks (measured as a decline in gross domestic product per capita) were significant predictors of state failure. The task force also found that “partial” democracies—usually in transition from authoritarian to fully democratic institutions—were particularly vulnerable to collapse. Similar conclusions have been reached in studies on African conflict, which find that poverty and slow economic growth raise the probability of conflict (Collier & Hoeffler, 2000).

Types of Economic Failure

Distinguishing several kinds of economic failure abroad and then tracing their various strategic implications for the United States is useful and will assist later discussion about whether the United States has policy instruments to address the root causes of foreign-state collapse or whether we must satisfy ourselves with treating the outcomes instead. Four types of economic failure that lead to widening income inequalities between rich and poor and to serious strategic concerns for the United States are described below.

Poverty Trap

A poverty trap is a condition, seemingly paradoxical, in which a poor country is simply too poor to achieve sustained economic growth. Many countries in Africa are in this situation. Economic growth depends on minimum standards of health, education, and infrastructure in order to attract the new investments and technology that in turn are needed to raise income levels. Some impoverished countries are too poor to provide the basic public goods of minimally acceptable health and education, much less physical infrastructure. In these settings, the state cannot fulfill its basic tasks of helping to keep the population safe, healthy, and educated.

Why do some poor countries succumb to such a trap and others do not? Physical ecology probably plays a role. Africa is uniquely hampered by extreme conditions of disease and low food productivity that in turn prevent its societies from managing to achieve the minimum necessary conditions for growth.²

State Bankruptcy

State bankruptcy is the condition in

which the state cannot service its current debts. Bankruptcy almost always results from indebtedness to foreign rather than domestic creditors of the state, because domestic debts denominated in the national currency can generally be serviced through printing money. In this case, high inflation (rather than a debt-servicing interruption) is the consequence.

State bankruptcy has powerfully destabilizing effects on society, more destabilizing than almost any other peacetime

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economic malady. State bankruptcy has repeatedly contributed to revolutions (France in 1789); loss of sovereignty (Egypt in 1882); collapse of empires (Ottoman Empire in 1875 onward; the Soviet Union in 1991); innumerable coups (Ecuador in 1999); and internal violence. Bankrupt states cannot provide basic public goods (such as health, education, courts, or police); maintain troop loyalties; use state revenues to buy off political opposition figures; or make budget transfers to keep allied parties or regions within a governing coalition. States lack the international equivalent to Chapter 9 of the U.S. Bankruptcy Code, in which a municipality can win a time-out on debt servicing, followed later by a write-down of debts, with the U.S. Bankruptcy Court protecting the municipality during this period against a disruption of public services.

Liquidity Crisis

A liquidity crisis is a sudden reversal of capital flows—usually short-term private sector loans—that leads to an intense contraction of the economy despite long-term solvency and generally adequate fundamental economic conditions. The so-called emerging markets experienced repeated liquidity crises in the 1990s (Mexico in 1995; Indonesia, Korea, and Thailand in 1997), causing extremely abrupt and deep declines of gross national product (GNP) and, at least in the case of Indonesia, provoking a dramatic

regime change and internal violence. These crises were difficult to predict in part because they did not have obvious roots in state-sector weakness, although they contributed to state instability after the fact.

Transition Crisis

The fourth major cause of economic failure that can lead to state failure is a crisis

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of transition, when political and economic regimes are making a fundamental institutional change. Examples include the transition from communism in Eastern Europe and the former Soviet Union; recovery from war (especially from defeat); transition from colonial rule to state sovereignty; transition from authoritarian rule to democratic rule; and succession struggles after the collapse of long-standing regimes (such as the fall of Suharto after 32 years in power). These transitions destabilize societies directly in myriad ways, but also indirectly by sundering usual paths of economic exchange.

Almost all transitions are characterized by extreme uncertainty about the future and therefore an absence of consolidation of any particular set of institutional arrangements. When the future is “up for grabs,” moreover, self-fulfilling expectations can play a dominant role in determining the future path of developments. A regime expected to succeed can thereby succeed, as supporters flock to the “winner.” A regime expected to fall can fall because of the reticence of potential supporters to rally to the cause of a “loser.” The State Failure Task Force found that, in Africa, the most dangerous political condition leading to future state failure was indeed a state of transition. “Partial” democracies were more likely to fail than authoritarian or fully democratic regimes.

Ramifications of State Failure for U.S. Strategic Interests

Economic failure abroad that leads to state failure significantly affects U.S. interests in

military, economic, health-related, and environmental areas. Although a thorough accounting of these ramifications would fill volumes, mentioning some examples is worthwhile.

National Security

If we compare the dates of U.S. military engagement with the timing of state failures according to the State Failure Task Force, we find that virtually every case of U.S. military intervention abroad since 1960 has taken place in a developing country that had previously experienced a case of state failure.³ (For these purposes, military intervention includes any use of U.S. troops abroad, whether for direct combat, peacekeeping, evacuation of civilians, protection of U.S. property, and so forth.) In many cases, the linkages from economic collapse to state failure to U.S. military engagements could not be clearer. Yugoslavia collapsed in part because of dire macroeconomic instability at the end of the 1980s, a point noted recently by the U.S. ambassador at the time, Warren Zimmerman (Zimmerman, 1999). Of course, security considerations now include much more than the engagement of military forces to encompass terrorist threats and arms proliferation.

Economic Losses

Adam Smith noted more than two centuries ago in *Wealth of Nations* that a country’s prosperity benefits directly from the prosperity of other nations (Smith, 1776, page 520). The United States has huge economic stakes in the developing world that are jeopardized by state failure abroad. The U.S. Commerce Department estimates the market value of U.S. foreign direct investments to be \$2.1 trillion, of which \$500 billion is in developing countries. Around 41 percent of U.S. exports in 1999 went to developing countries, up from 35 percent in 1990. Exports to developing countries grew by 8.5 percent during 1990–1999, compared with 5.9 percent to industrialized countries.

Business operations abroad are heavily affected by host-country instability, poverty, and even disease. A *Business Week* profile of ExxonMobil gives several examples of that company’s projects facing significant local complexities and decades-long delays in

Russia, China, Indonesia, Angola, and Chad, among other places (Bianco, 2001).

International Crime and Drug Trafficking

State failure is both a cause and consequence of international criminality, including money laundering and international drug trafficking. Failed states are easy prey for criminal groups that seize widespread control of drug smuggling operations, and some states (such as Colombia) have lost control over internal territories to insurgencies supported in part by proceeds of the drug trade.

Environmental Degradation

Economic collapse and state failure are major contributors to environmental degradation of strategic concern to the United States. For example, tropical deforestation with serious consequences resulting in loss of biodiversity and long-term climate change is caused in part by population pressures in poor agrarian regions that lead to clear-cutting of forests to make way for peasant agricultural sites (Cincotta et al, 2001). Most of the clear-cut land, alas, is unsuitable for intensive agriculture and is quickly abandoned, with devastating long-term ecological consequences. Because of state failure, and the lack of viable economic alternatives in these economies, environmental regulations are generally not enforceable or are easily corrupted. And some of the earth's most important zones of high biodiversity are at extreme risk because they lie precisely within failed states.

Infectious Disease

Many of the poorest countries in the world, and especially societies with state failure, are subject to horrific conditions of disease. Like international crime, the disease burden is both a cause and consequence of economic and political failures. A heavy infectious-disease burden, such as year-round transmission of malaria, causes a sustained reduction in economic growth for many reasons: individual workers are less productive, children are much less likely to finish school and to reach their cognitive potential, sectors such as tourism and agriculture are directly affected, and foreign investors are deterred.

State collapse feeds these problems

because failed states lack the financial and institutional means to deliver vital public-health services. The AIDS pandemic has ravaged sub-Saharan Africa in part because no African government has the means to fight this scourge with its own resources, and donors have generally not provided sufficient resources. As a 2000 National Intelligence Estimate on the global infectious disease threat clearly indicated, the United States stands at risk as a result of the uncontrolled spread of infectious disease in the poorest countries and failed states (National Intelligence Council, 2000). Risks to the United States include direct financial costs as it responds to the epidemic crises abroad; destabilization of foreign societies as a result of the crippling disease burden; and the spread of deadly pathogens, including multi-drug-resistant strains, across international borders. The 2002-03 outbreak of SARS provided a dramatic illustration of how quickly such diseases can spread, how costly they are to fight, and how necessary transparent international cooperation is to effectively contain them.

Notably, Europe has already spent billions of dollars combating "mad cow" disease and foot-and-mouth disease in European cattle and sheep. AIDS, of course, illustrates a newly emergent pathogen that arrived from Africa and has caused immense suffering and economic loss in the United States (although only a small fraction of the human devastation that has occurred in Africa itself). One can only wonder whether better public health surveillance and medical treatment, along with a healthier general population in Africa, might have controlled the epidemic much earlier, and either slowed or stopped its introduction to other parts of the world.

Addressing Foreign Economic Failure

Surprising as it may seem, the United States lacks a policy framework for translating its strategic interests in foreign economic performance into foreign policy actions. Because foreign economic failure leads to state failure that in turn has adverse implications for national security, trade and investment, international crime, drug trafficking, and infectious disease, one might suppose that the United States would have developed policy instruments to address preventable or remediable cases of foreign economic failure.

One would hope that economic, security, and foreign policy considerations would also be well integrated in national foreign policymaking. In fact, U.S. economic policymaking vis-à-vis the developing world has largely operated outside any long-term foreign-policy framework.

A proper policy framework must start with a hard-nosed assessment of what the

response from the United States. Consider the problem of a poverty trap, for example, as it afflicts much of sub-Saharan Africa. Economic growth does not occur because these countries do not achieve the minimal standards of health, education, and infrastructure. A valid policy instrument, in that case, is a set of large-scale and sustained income transfers from the United States and other rich countries targeted on the interlocking crises in health, education, and basic infrastructure.

Amazingly, however, the United States gives only a pittance to the poorest countries for the support of basic health and education. In 1999, for example, the United States gave the sub-Saharan African countries (49 countries with a combined population of 643 million in 1999) around \$78 million for health and \$63 million for education in official development assistance, according to the data of the Organization for Economic Cooperation and Development. Total donor aid (from all donors) to sub-Saharan Africa was \$836 million for health and \$999 million for education, or little more than \$1 per person in each case. In short, the rich countries did nothing significant to help the poorest of the poor in Africa break out of the poverty trap. The results were expected: continued economic failure, massive state failure, collapsing public health, and pervasive adverse consequences for the United States.

The Bush Administration's new Millennium Challenge Account (MCA) initiative—scheduled to begin in 2004 with \$1.3 billion in funding and then slated to rise to \$5 billion per year by 2006—is a welcome development. But the MCA initiative is still very small relative to U.S. GNP as well as to the needs in the poorest countries. The extra annual \$5 billion of the MCA (if actually delivered) would bump up U.S. Official Development Assistance (ODA) a mere 0.05 percent of GNP to 0.15 percent—still leaving the United States below the aid levels of all other donor countries.

State bankruptcy, on the other hand, must be handled in a completely different way. Giving short-term transfers to an already bankrupt state is fairly useless, as one failed International Monetary Fund (IMF) program after another has sadly demonstrated. When a state is buried by external debt, the debt must be reduced for the state to function properly.

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United States can and cannot accomplish in support of economic development abroad. For example, as rich as the United States is, direct income transfers from the United States to poor countries can make relatively little difference to the per capita income levels of those countries. To illustrate this statement, if the United States decides to spend another \$20 billion per year on aid for the 2.4 billion people in low-income countries, that act would amount to less than \$10 per person in the recipient countries. Because GNP per person is around \$37,000 per year in the United States and only \$400 per year in low-income countries, sizeable income transfers would just be a drop in the bucket of the income gap.

Nonetheless, foreign assistance can be decisively significant if it helps to unleash long-term economic growth, for example, by helping a country escape from a poverty trap or by helping a country in institutional transition to consolidate its economic and political reforms. Such uses of foreign assistance depend on a strategic view of the use of such transfers; that strategic sense has been largely missing in practice during the past 20 years. Foreign assistance has been poorly targeted (mostly to countries not in a poverty trap, so that added assistance has made little difference to their long-term growth prospects) and poorly timed (often arriving too late to help fragile economies in transition).

Each of the sources of economic failure—poverty trap, state bankruptcy, illiquidity, and transition crisis—requires a distinctive policy

Both the reality and expectations of continued weakness in a failed state make it impossible for its government to achieve political stability when overwhelmed by debt. The outright cancellation of debt becomes imperative. Of course, the United States might resist debt relief in the case of a hostile debtor state, but if the United States is truly attempting to foster economic recovery abroad, it should regard debt cancellation as a necessary part of its foreign policy arsenal, similar to the situation of a bankrupt municipality under the U.S. bankruptcy code. The poorest countries need debt relief, but debt cancellation could also help middle-income countries facing fiscal insolvency (e.g., Argentina as it moves to resolve its current banking and fiscal crises).

In the case of illiquidity, the key step is not debt cancellation but a postponement or “timeout” on debt servicing. The continued hemorrhaging of debt service payments during a liquidity crisis can cause an extremely sharp collapse of economic output. For example, the East Asian emerging markets experienced GNP declines of 6 percent or greater during 1998 not because their economies had suffered a collapse of fundamentals, but because these economies were subject to a brutal squeeze on access to short-term working capital. The IMF did little to relieve the short-term credit squeeze because it was reluctant to insist on a time-out on debt servicing. When that happened as a force majeure as in Korea in late 1997, economic recovery began sooner.

The main lesson about transitions is that small amounts of help at crucial moments can tip the balance toward successful outcomes. A new government might consolidate its democratic gains, or it might collapse into a new authoritarian regime. If the transition gains momentum in one of these directions, political forces often rush to the seemingly victorious side, and a self-reinforcing process takes over. Because expectations of the direction of change also cause political forces to align themselves one way or another, the paths of transition regimes are subject to self-fulfilling prophecies of success or failure.

All of this analysis underscores one essential point: when the United States is dealing with a transition government, time is of the essence. A key use of aid should be to support the consolidation of the new regime,

and that goal requires timeliness. Foreign assistance should be used to bolster the political authority of the new government, to remove impediments (such as an overhang of foreign debt), and generally to build signals of the long-term durability of the new government.


Toward a Strategic Use of Foreign Assistance

The United States has rarely wielded foreign assistance as an effective instrument of U.S. foreign policy. During the Cold War, a considerable proportion of foreign assistance was simply a transfer to U.S. allies as a kind of “thank you” for continued political support that often was not forthcoming. The aid was

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not well directed toward solving development challenges, and in any event the “thank you’s” were often followed by state collapse. Since the early 1980s, and especially since the end of the Cold War, the levels of U.S. donor assistance have in fact plummeted. The United States now spends only 0.1 percent of GNP in foreign assistance, and only 0.02 percent of GNP in assistance for the poorest countries. The United States has become by far the stingiest of all rich countries in donor aid. The consequences of this miserliness are undermining the long-term vital interests of the United States.

It is time to reconstruct a strategy of foreign assistance that is commensurate with U.S. strategic interests. The United States should urgently lead an international effort to help sub-Saharan Africa escape from a poverty trap that has led to a downward spiral of disease, falling living standards, and increased conflict during the past 20 years. More generally, the United States should harmonize the decision-making of different parts of the U.S. government, including the Departments of Treasury and State as well as the Office of the U.S. Trade Representative, to rebuild our national capacity to support economic development abroad as a vital component of U.S. foreign policy. 

Author's Note

The original version of this commentary was written before September 11, 2001, but it points out many of the risks that we are now considering. Quite a few ill-informed articles deny a link between terrorism and economics, arguing that the terrorists themselves are often middle- or even upper-class citizens. This article, however, points out that terrorists prey on failed states, and state failure is closely related to economic failure, as the CIA's State Failure Task Force has shown. Moreover, the task force recounts that U.S. military interventions are themselves closely tied to state failures. Therefore, the record of state failures (and the economic underpinnings which contribute to these failures) must be of profound concern for U.S. foreign policy, especially in today's post-September 11 world.

Notes

¹ For more on conflict and economics in Africa, see *Journal of African Economies* 9(3), 235-409.

² See Bloom & Sachs (1998) and Sachs et al. (2001).

³ In chronological order, cases of military intervention following state failures are (the first date in each case refers to the military intervention, and subsequent dates refer to state failure): Cuba (1962, 1956-1961); Thailand (1962, 1957); Laos (1962-1975, 1960-1979); Congo (1964, 1960-1965); Vietnam (1964-1973, 1958-1975); Dominican Republic (1965, 1961-1966); Congo (1967, 1960-1965); Cambodia (1970, 1970-1979); Cyprus (1974, 1963-1968, 1974); Vietnam (1975, 1958-1975); Lebanon (1976, 1965-1992); Korea (1976, not applicable); Zaire (1978, 1977-1979); Iran (1980, 1977); El Salvador (1981, 1977-1992); Libya (1981, not applicable); Lebanon (1982, 1965-1992); Honduras (1983-1989, 1978-1990 state failure in Nicaragua); Chad (1983, 1965-1996); Liberia (1990, 1989-1997); Zaire (1991, 1991); Sierra Leone (1992, 1991-present); Somalia (1992, 1988-present); Bosnia-Herzegovina (1993, 1992-1996); and Somalia (1993, 1988-present). The dates for state failure are taken from the State Failure Task Force data-set (State Failure Task Force, 1999); the dates of U.S. military intervention are taken from Collier (1993).

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The Realpolitik of Poverty

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Most hard-headed policy analysts consider poverty a "soft," low-priority issue—if they think of it at all.

These analysts are wrong. Eliminating absolute poverty worldwide would help meet a number of American interests in the 21st century. And if global absolute poverty persists, the cost to the United States over the next decades will grow. Eliminating absolute poverty, therefore, is not just an *ethical* but an *instrumental* issue for U.S. policymakers.

Why Global Poverty is Bad for the United States

Absolute poverty usually is defined as the number of people living on less than \$1 a day. By that measure, nearly 1.2 billion people were living in absolute poverty in 1998. The global percentage of people in this category dropped from 28 percent in 1987 to 23 percent in 1998. However, because of population growth, the *number* of very poor people remained roughly the same. And if we use an income of less than \$2/day as the measure of poverty, more than 2.8 billion human beings are impoverished—again, roughly the same number as in the 1980s.

What is your life like if you are in absolute poverty? For starters, you lack the basic skills and minimum capacities needed to control your own life, much less take advantage of globalization. You are most likely illiterate. You might very well be malnourished. You are almost certainly suffering from at least one debilitating disease (such as malaria or HIV/AIDS), which saps

your energy and diminishes your productivity. You probably lack assets (such as land and capital) that would enable you to invest in your future. And in many countries, you are at the bottom of the social ladder—a victim of discrimination, ignored by social programs that reach other groups.

But why should the United States care? Because the world won't work well—even for the United States with its vast wealth and power—if poverty remains at a high level. Take trade. Trade is an important *strategic* arena because it can play a critical role in expanding the number of prospering, stable, and democratic states. Done right, trade can be an important engine to developing-country domestic growth—which, in turn, will provide reforming countries with resources needed to address poverty and other problems. (For that reason, successive American presidents—both Republican and Democrat—have strongly emphasized promoting open markets and open economies.) Global poverty, however, cripples global trade potential and hence ultimately global security.

Trade is also now an increasingly important contributor to America's economic growth. In the last four decades, exports have tripled their portion of the U.S. gross domestic product (GDP). And developing countries now have emerged as major trading partners for the United States: nearly 42 percent of U.S. exports went to developing countries in 1999. A measurable part of that export-market growth came in Asian countries—

growth directly attributable to those countries' heavy investments in health and education, which dramatically reduced absolute poverty and increased worker productivity (WHO, 2001).

U.S. exports are particularly sensitive to rates of growth in developing countries. When growth slows (as it did during the debt crises of the 1980s and during the recent Asian financial crisis), American exporters and their employees feel the impact directly. And in the longer run, absolute poverty is a drag on world trade expansion: it slows growth and limits the size of the global market.

Much the same case can be made for international health—where problems have direct costs to American interests. Since 1973, at least 30 previously unknown diseases such as HIV/AIDS, hepatitis C, and Ebola have emerged, most of them in the developing world. (SARS is only the latest example.) In addition, new drug-resistant strains of tuberculosis and malaria have emerged and are now appearing in the United States. As the National Intelligence Council's report *The Global Infectious Disease Threat and Its Implications for the United States* puts it:

New and reemerging infectious diseases will pose a rising global health threat and will complicate U.S. and global security over the next 20 years. These diseases will endanger U.S. citizens at home and abroad, threaten U.S. armed forces deployed overseas, and exacerbate social and political instability in key countries and regions in which the United States has significant interests (NIC, 2000, page 5).

Many of these diseases—such as malaria and cholera—are first and foremost diseases of poverty. Others have emerged in countries that are too poor to have public-health systems to both treat new diseases and to warn the outside world when they emerge. And in all cases, people living in poverty are too poor to afford treatments even when such treatments are available.

Creating effective public-health institutions in developing countries could both help people deal with major diseases of poverty such as malnutrition and malaria as

well as new challenges such as HIV/AIDS. Such health institutions could also provide a global early-warning system for the inevitable new major health threats. Yet by all agreement, global health does not receive anywhere near the policy attention and funding that its importance demands.

The relationship of poverty to conflict is more complex. Poverty by itself does not cause conflicts; it is only one in a long list of factors (including ethnic disparities, social and economic inequalities, resource disputes, demographic pressures, environmental degradation, and urbanization) that work in different combinations in different situations to prepare the ground for conflict.

However, it is the poorest countries (those with stagnant or declining economies and a dependence on exports of raw materials) that seem to be most prone to violent conflict. Conversely, those that are developing rapidly suffer many fewer violent conflicts.¹ And while most of the costs of violent conflict are borne regionally, the costs to US interests (and to the international community) also are considerable. For instance, there is credible evidence that the initial spread of HIV/AIDS in Africa was speeded by the conflict between Tanzania and Uganda, and then by troops sent to keep the peace in West African conflicts. And HIV/AIDS is not the only disease spread by conflict. The World Bank estimates that for every 1000 refugees, there are nearly 1500 new cases of malaria in neighboring countries, simply because people have moved from an area where they have acquired immunity to one where different strains of the disease are prevalent.

The direct costs of ending active conflicts are also high. A study prepared for the Carnegie Commission on Preventing Deadly Conflict estimated that the costs of dealing with seven major conflicts in the 1990s was around \$230 billion. The study's authors estimate that a preventative approach stressing earlier intervention would have saved the international community almost \$130 billion (Brown & Rosecrance, 1999).

Moreover, the drug trade, international crime, and terrorism are also associated risks of conflict. According to the World Bank, some 95 percent of global production of opium takes place in countries with civil wars,

and the channels of distribution and storage flow through conflict countries. And while terrorists are usually not impoverished, conflict does provide an environment (such as Afghanistan) in which terrorists can operate. Illegal trade in raw material and drugs—notably, diamonds in West Africa and opium in Afghanistan—have sprung up in conflict areas, profiting both terrorist and criminal groups.

Finally, there is an important relationship between poverty and the sustainability of the earth's environment. Both economic growth and affluence and persistent poverty are pushing against the earth's limited carrying capacity. Energy is a central issue. Currently, most of the energy used by poor people is produced in ways that are highly inefficient, generate enormous amounts of pollution, and are generally unhealthy. Most people living in poverty use wood and other plant matter for cooking, and kerosene for lighting. Both sources of energy consume more energy than other fuels and produce smoke and particulates that worsen human and environmental health (UNFPA, 2001).

The challenge—which is again in the interests of the United States—lies in finding some way for the rich countries to lessen their consumption of energy without reducing well-being, and for poor countries and poor people to escape poverty without stifling needed economic growth or destroying the environment on which they too depend. For poor people in rural areas, solar power already is cost-effective when compared with extending electric grids, and subsidies and low cost credit could help poor people obtain more efficient stoves.

Can It Be Done?

Relative poverty probably never will be eliminated: the current gap between rich and poor countries is just too wide to close in the foreseeable future. But it is possible—and well before 2050—to cut dramatically and even eliminate the number of people living in *absolute* poverty. Achieving such a goal, however, will take more than rhetoric from both developing and developed countries.

In fact, the percentage of people living in absolute poverty has already been reduced, and all social and economic indicators show

major improvements since the 1960s. Per capita developing-country GDP nearly tripled between 1960 and the late 1990s; life expectancy has jumped from 46 years to 65 years; birth rates have dropped dramatically in almost every country (from over six births per woman in the 1950s to 3.6 births, and still declining), with the prospect that, by the

The world won't work well—even for the United States with its vast wealth and power—if poverty remains at a high level.

—John Sewell

middle of this century, the world's population could be stabilized at lower levels than previously projected; and world food production has increased dramatically, and many more countries are now capable of feeding themselves. In India—the “basket case” of the 1970s—food production has quadrupled. Other indicators tell the same story.

Nevertheless, major problems persist. The *distribution* of this progress has been very uneven. Mass poverty persists in a number of countries and has even increased as a result of financial crises. Developing countries are vulnerable not only to natural disasters and low prices for their primary commodities, but now also to instability in the international financial system brought about by globalization. Most noticeably, sub-Saharan Africa has made virtually no progress against poverty.

Fortunately, policymakers and specialists in the last three decades have arrived at detailed strategies for development that promote growth and reduce poverty—strategies that incorporate the following conclusions:

- Liberalized trade and economic openness have a beneficial impact on growth.
- Growth is important, for its own sake and for reducing poverty. It is not sufficient, however, to eliminate poverty.
- Measures to directly address poverty also are important for their own sake, and if done right they enhance economic growth. In addition, participation by people in the

development decisions that affect their lives is critical to the success of programs.

- Similarly, good governance and democracy are important for growth and also goals in their own right.
- Investment in poor people—increasing their access to education and health, redistributing productive assets (credit and land),

Eliminating absolute poverty is not just an ethical but an instrumental issue for U.S. policymakers.

—John Sewell

supporting small-scale rural and urban enterprises—is critical.

An international consensus—codified in the Millennium Development Goals—has emerged around the necessity of eliminating poverty.² Commitments by *developing* countries are critical in the effort to meet the Goals. Governments and their constituents are going to have to make tough choices in balancing economic efficiency, political openness, social progress, and equity—all while protecting the environment. This will mean commitments to adopt growth-oriented economic policies, to cut wasteful military expenditures, to redirect current social programs away from the middle class, to end all-too-prevalent corruption and to transfer resources to poor people and poorer areas.

Commitments by *developed* countries also are critical to eliminate absolute poverty. The most important step is for these countries to drop high market barriers to products in which developing countries have a natural comparative advantage—particularly agricultural products and labor-intensive manufactures. Developed-country tariffs and subsidies cost developing countries far more than the annual foreign aid these countries receive from the industrial countries.

The World Bank estimates that if both industrial and developing countries drop existing trade barriers, developing countries would gain an additional \$1.5 trillion of income—which could result in 320 million people escaping poverty (and fewer infants dying before their fifth birthday) by 2015

(World Bank, 2002, page 176). Trade liberalization discussions now underway provide an excellent opportunity for the developed world to remove market barriers to those products with which poor countries already are competitive.

Developed countries should also commit the financing needed to meet the Millennium Goals. Money matters if poverty is to be eliminated—but currently, total flows of Official Development Assistance (ODA) from developed countries to poorer ones are totally inadequate to support the programs and policies needed to meet the Goals. ODA flows in 2000 totaled \$53.7 billion—or just over 0.02 percent of the OECD-country gross national income. (The official target, honored by only a few countries, is 0.07 percent). If the Goals are to be achieved, the best estimates show that an additional \$50 billion a year in ODA will be needed.³

The issue is urgent. Currently, substantial parts of the world are not on track to reach the Goals by 2015. More than 100 million school-age children remain out of school. In some twenty countries, more than 1,000 women die for each 100,000 live births. In some countries, infant mortality is on the rise.

There is still some time for debate and policy invention, but it is not unlimited. Postponing these decisions for too long runs the risk on some issues of incurring higher costs to deal with problems that have become larger.

Fortunately, the broad shape of the world at mid-century is discernable, at least in terms of population. Population growth has slowed dramatically, although the momentum of past growth will continue for several decades. The UN's annual population projections show that, if current trends continue, the world's population could stabilize in 2050 at around 9 billion people, a figure far lower than once feared.

Most of these people will be living in developing countries. They will also be living in cities and not in the countryside. In fact, as early as 2015, more than half the world's population will be living in urban areas. The populations of the industrial countries, on the other hand, will be much older and dependent on an increasingly smaller group still in their productive working years. The impacts will

be complex and little understood. It is possible that the bulge of working-age younger people in the developing world could provide a huge stimulus to global economic growth. On the other hand, if jobs are not created, the potential for instability and even conflict will only grow. But meeting the challenge will be made much more difficult if absolute poverty is not eliminated well before mid-century.

Given these demographic trends, the challenge for policymakers is to think in terms of “managing” a world with 50 percent more people than at the beginning of the 21st century. Over 95 percent of that population growth will occur in the developing world. In 2050, one in four people will be living in countries facing chronic or recurring shortages of water, and the world will have to double food production as early as 2025 simply to meet the needs of people who will

then be alive. Furthermore, the age distribution of global population will also be quite different than today’s population profile. The populations of most developing countries will be younger, and the need to provide gainful employment for these youth cohorts will be immense.

Many in the policy community still think of these issues as very long term. But 2050 is not that far away, and many now alive in the United States will still be living, including the children of those leaders now in power. Decisions taken—or not taken—in this decade will have a major impact on the shape of their lives. From this perspective, eliminating absolute poverty becomes very important. It is not only ethically right for its own sake; it also promotes fundamentally American interests. **W**

Notes

¹Much of this section is drawn from World Bank (2003).

²For a list of and details on the Goals, go to <http://www.developmentgoals.org/>.

³See UN (2001) and Devarajan et al. (2002).

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