Poverty and Inequality in the Global Economy

MICHAEL D. YATES

Capitalism is hundreds of years old and today dominates nearly every part of the globe. Its champions claim that it is the greatest engine of production growth the world has ever seen. They also argue that it is unique in its ability to raise the standard of living of every person on earth. Because of capitalism, we are all “slouching toward utopia,” the phrase coined by University of California at Berkeley economist J. Bradford DeLong—slowly but surely heading toward a world in which everyone will have achieved a U.S.-style middle-class life.1

Given the long tenure of capitalism and the unceasing contentions of its adherents, it seems fair to ask if it is true that we are “slouching toward utopia.” Let us look at three things: the extent of poverty and inequality in the richest capitalist economy—that of the United States; the extent of poverty and inequality in the poor countries of the world; and the gap between those countries at the top of the capitalist heap and those at the bottom.

The United States is often referred to as a nation dominated by the middle class and one in which it is relatively easy for a poor person to become a person of means. Here, it is said, equality of opportunity rules. It is hard to know what phrases like “middle class” and “equality of opportunity” mean, but it is fair to think that such a society ought not to be one in which there is widespread poverty and ought to be one in which people do indeed have a great deal of economic mobility.

The data on poverty and inequality of income and wealth do not square very well with this image. In the United States, the federal government had defined a “poverty level of income,” one below which families are defined to be poor. It is an income below which families would find it difficult to live without serious problems and which would place

---

1 Michael D. Yates is associate editor of Monthly Review. He was for many years professor of economics at the University of Pittsburgh at Johnstown. He is author of Longer Hours, Fewer Jobs: Employment and Unemployment in the United States (1994), Why Unions Matter (1998), and Naming the System: Inequality and Work in the Global System (2004), all published by Monthly Review Press.
them in real danger when faced with any sort of economic crisis, such as a sick child or an injury at work. This official poverty level of income is equal to three times the minimum food budget calculated by the Department of Agriculture, a very modest standard with numerous restrictive and unrealistic assumptions built into it, for example, that poor families will be able to buy food at the lowest unit price and will know how to convert the cheapest food into nutritious meals. In 2002, this was $18,392 for a family of four, or $12.60 per person per day. In 2002, 34.6 million persons lived in poverty, 12.1 percent of the population. The incidence of poverty was 24 percent for blacks and 21.8 percent for Hispanics. In 2001 (I don't have data for 2002), 35.2 percent of black children under six lived in poverty, as did 29.1 percent of Hispanic children under six. These numbers rise and fall over time and while they have been higher in the recent past, they are still remarkably high when we consider the enormous productive capacity of the U.S. economy and the more than 200 years in which this capacity has steadily risen. And if we used a more realistic definition of poverty—such as one-half the median income, a poverty definition typically used to compare the rich capitalist economies—the incidence of poverty would increase dramatically to 17 percent (in 1997), or more than 45 million persons.²

What are the chances that this extensive poverty could be eliminated? Not very high, given that this poverty coincides with large and growing inequality of both income and wealth, inequalities ingrained in the laws of motion of capitalism.

In the United States in 2000, income inequality was greater than at any time since the 1920s, with the richest 5 percent of all households receiving six times more income than the poorest 20 percent of households, up from about four times in 1970. A study by economist Paul Krugman (who has been skillfully assailing the Bush administration in his New York Times column) estimated that perhaps as much as 70 percent of all of the income growth in the United States during the 1980s went to the richest 1 percent of all families. With respect to wealth, in the United States in 1995, the richest 1 percent of all households owned 42.2 percent of all stocks, 55.7 percent of all bonds, 44.2 percent of all trusts, 71.4 percent of all noncorporate businesses, and 36.9 percent of all nonhome real estate. As with income inequality, this inequality has been increasing, at least for the past 20 years.³

Great and growing inequality mocks the notion of equality of opportunity. Consider a thought experiment:
In Pittsburgh, Pennsylvania,... there is an extraordinarily wealthy family, the Hillman's, with a net worth of several billion dollars. One of their homes, along once fashionable Fifth Avenue, is a gorgeous mansion on a magnificent piece of property. About three miles east of this residence is the Homewood section of the city, whose mean streets have been made famous by the writer, John Edgar Wideman. On North Lang Street there is a row of three connected apartments. One of the end apartments has been abandoned to the elements—to the rodents and the drug users... Poverty, deep and grinding, is rampant on this street and in this neighborhood, which has one of the nation's highest infant mortality rates.

Consider two children, one born in the Hillman house and another born in the North Lang Street apartment. In the former, there are two rich and influential parents, and in the latter there is a single mother working nights with three small children. Let us ask some basic questions. Which mother will have the best health care, with regular visits to the doctor, medicine if needed, and a healthy diet? Which child is more likely to have a normal birth weight? Which child is more likely to get adequate nutrition and have good health care in early childhood? If the poor child does not have these things, who will return to this child the brain cells lost as a consequence? Which child is more likely to suffer the ill effects of lead poisoning?... If the two children get ill in the middle of the night, which one will be more likely to make it to the emergency room in time?...

As the two children grow up, what sort of people will they meet? Which will be more likely to meet persons who will be useful to them when they are seeking admission to college or looking for a job or trying to find funding for a business venture?... Which will go to the better school? Which will have access to books, magazines, newspapers, and computers in the home?... Which one will be more likely to have caring teachers who work in well-equipped and safe schools? Which one will be afraid to tell the teacher that he does not have crayons and colored paper at home?... When these two children face the labor market [or course, the rich child will never have to face the labor market in the sense the poor child will], which one will be more productive?

We can buttress our thought experiment with empirical evidence. It now appears clear that in the United States—whose politicians and pundits are always touting the myth that “you can be anything you want to be,”—it is “increasingly apparent that the secret to success is to have a successful parent.” Recent studies tell us that if your parents' income is in the top 20 percent of the distribution of family incomes, you have a 42.3 percent chance of ending up at the top too, but only a 6.3 percent chance of falling into the bottom 20 percent. If your parents' income is in the bottom 20 percent, you have only a 7.3 percent chance of ending up in the top 20 percent. No doubt these correlations would be still stronger
if we considered wealth as well as income. If your parents were in the top 1 percent of the income distribution (and therefore certainly had a lot of wealth, something which might not be true parents at the lower end of the top 20 percent), the chances of you ending up in the top 20 percent would surely be higher than 42.3 percent.⁹

Compounding the unlikelihood of eliminating poverty is the fact that inequality in and of itself generates many socially undesirable outcomes. Inequality research has found that if we consider two states in the United States or two countries, each with the same average income, what we might call “social health” will be poorer in the state or country with the greater income inequality. Put another way, equally poor people will be worse off in terms of many social indicators if they live in the state or country with the greater income inequality. Using as a measure of inequality the share of income going to the poorest 50 percent of households in each U.S. state, researchers found that this share varied inversely (in the opposite direction) with the state’s mortality rate. In addition,

This measure of inequality was also tested against other social conditions besides health. States with greater inequality in the distribution of income also had higher rates of unemployment, higher rates of incarceration, a higher percentage of people receiving income assistance and food stamps, and a greater percentage of people without medical insurance. Again, the gap between rich and poor was the best predictor, not the average income in the state.

Interestingly, states with greater inequality of income distribution also spent less per person on education, had fewer books per person in the schools, and had poorer educational performance, including worse reading skills, worse math skills and lower rates of completion of high school.

States with greater inequality of income also had a greater proportion of babies born with low birth weight; higher rates of homicide; higher rates of violent crime; a greater proportion of the population unable to work because of disabilities; a higher proportion of the population using tobacco; and a higher proportion of the population being sedentary (inactive). ⁶

Great and growing inequality saps the political power of those at the bottom, making it more likely that the social welfare programs which help to alleviate the harmful consequences of poverty will be gutted, while at the same time making it more likely that policies which further favor the rich will be put in place. The poor are increasingly filled with hopelessness and despair as they contemplate the yawning gap between
them and those at the top.7

Although there is great poverty and inequality in the richest capitalist country, this cannot compare to the levels of both of these to be found in the vast majority of the world’s economies, which are both capitalist and poor. The World Bank estimates the number of persons in different countries and in the world as a whole who subsist on less than $1 and $2 per day. In Nigeria, for example, in the early 1990s, 90.8 percent of the population lived on $2 per day or less; in India the figure was 86.2 percent in 1997. In a world population of some 6 billion persons, the World Bank estimates that 2.8 billion survive on $2 per day or less (about 45 percent); 1.2 billion lived on $1 (about 20 percent) per day or less.

The World Bank also uses a number comparable to the U.S. poverty level of income. Remember that the U.S. level for 2002 translates into $12.60 per person per day. The Bank’s level for poor countries is now a little more than $1 per day. Using this number, it claims that poverty diminished worldwide over the 1990s. However, this claim is suspect. It is true that $1 per day might go further in a poor country because prices are cheaper, so that while $1 per day in the United States makes a person obviously destitute, such may not be the case in a very poor country. If over time, prices fall in a poor country, then, other things equal, the number of persons living in poverty will fall. The problem, however, is that when the World Bank speaks of prices in a poor country, it means an index of all prices and not the prices of the things very poor people buy.

In general, the prices which are relatively lowest and which have declined most in poor countries are those of services unlikely to be consumed by the poor. As journalist George Monbiot tells us, “[The World Bank’s] estimate of the purchasing power of the poor is based on the measure of their ability to buy any of the goods and services an economy has to offer: not only food, water and shelter but also airline tickets, pedicures and personal fitness training. The problem is that while basic goods are often more expensive in poor nations than they are in rich ones, services tend to be much cheaper [reflecting the tremendous pool of surplus labor in poor nations]...” He goes on to say, “But the extremely poor, of course, do not purchase the services of cleaners, driver or hairdressers.” Two researchers at Columbia University estimated that if corrections were made for the problems in the World Bank’s methodology, the number of persons living in absolute poverty would rise by 30 to 40 percent, completely eliminating the alleged decrease in poverty.8

It should be noted in connection with the World Bank’s poverty level that the World Bank has been instrumental in promoting large-scale
export agriculture in poor countries. Many persons living below the World Bank poverty level are subsistence peasants operating outside the money economy. Their economic well-being is often greater than a dollar a day would indicate. As they are in effect dispossessed by Bank-promoted agriculture and move into urban areas, their money income may exceed the World Bank poverty level, but, in fact, they are considerably worse off than they were in the countryside.

Poverty on a global scale is matched by an enormous and growing inequality of incomes, a fact remarked upon in considerable detail in the November 2002 Review of the Month in this magazine. It is worth paraphrasing and supplementing what was said there. In China and India, the world's most populous nations and two of its fastest growing economies, inequality is growing rapidly. In China, once an extremely egalitarian country, income inequality is now barely distinguishable from that in the United States. China has witnessed perhaps the greatest income redistribution in history. In India, “Most of the benefits of...rapid economic growth are going to the wealthiest 20% of society.” There, “350 million [persons]—more than a third of the population—live in dire poverty...In Calcutta alone, an estimated 250,000 children sleep on the sidewalks each night.”

World Bank economist Branko Milanovic has overseen the most sophisticated attempt to measure income inequality worldwide. Using a massive household survey covering the entire world, he found that,

the richest 1 percent of people in the world get as much income as the poorest 57 percent. The richest 5 percent had in 1993 an average income 114 times greater than that of the poorest 5 percent, rising from 78 times in 1988. The poorest 5 percent grew poorer, losing 25 percent of their real income, while the richest 20 percent saw their real incomes grow by 12 percent, more than twice as high as average world income. World inequality grew because inequality grew between and within countries. The rich nations grew richer and the poor nations grew poorer; the rich within each country grew richer at the expense of the poor. Milanovic calculated that the world income gini coefficient [a measure of inequality which increases from zero to one as inequality increases] was between .66 and a staggering .80, depending on the way you converted one currency into another.15

Buttressing Milanovic's findings, the United Nation's most recent Human Development Report tells us that the income of the richest 25
million Americans is the equivalent of nearly 2 billion of the world's poorest people (2 billion is 80 times 25 million). In 1820, per capita income in western Europe was three times that in Africa; by the 1990s it was more than 13 times as high. Adding human meaning to these numbers, the report says, "The statistics today are shaming: more than 13 million children have died through diarrhoeal disease in the past decade. Each year over half a million women, one for every minute of the day, die in pregnancy and childbirth. More than 800 million suffer from malnutrition." In addition, "For many countries the 1990s were a decade of despair. Some 54 countries are poorer now than in 1990. In 21, a larger proportion is going hungry. In 14, more children are dying before the age of five. In 12, primary school enrollments are shrinking. In 34, life expectancy has fallen. Such reversals in survival were previously rare." Economist James Galbraith tells us that, "Looking at the broad range of developing countries, the University of Texas Inequality Project finds rising inequality in most of them, falling inequality in only a few." In Vietnam, in just two years, between 1999 and 2001, the gap between the richest and the poorest nearly doubled.

Just as capitalism's proponents proclaim the reality of equality of opportunity, so too do they say that today's poor national economies have every chance of someday becoming rich. Can this be so?

The gap between the rich and the poor within countries is paralleled by that among countries. Since countries have widely different populations, a common way to compare countries is by their gross domestic product (GDP) per capita. Such a comparison shows extremely large differences among countries. At the top are what we can call "rich countries"; these are for the most part those capitalist nations which first industrialized and which early on took command, largely through conquest and colonization, of much of the rest of world, from Latin America to Africa to Southeast Asia. At the bottom are the poorest of "poor countries," those nations on the receiving end of the forced expansion of the rich nations. Countries such as the United States, Norway, Japan, Germany, and France have per capita GDPs 20 to more than 100 times greater than countries like Ethiopia, Malawi, Afghanistan, and Bolivia. It is remarkable to observe that most of the rich countries are those where capitalism first arose, while most of the poor countries have long histories of colonial and imperial domination. In terms of per capita GDP, no Latin American country ranks in the top 35, and no African country ranks in the top 55. More than one-half of the poorest 50 countries are in Africa. Sixty percent of the top 50 are either in Europe or North America.
If we use nonmoney measures of how nations are faring, we see similar differences. In the United States, life expectancy at birth for women is about 80 years, in Switzerland 82; but in Afghanistan it is 46, in Sierra Leone 39. Infant mortality per 1,000 births is 3.98 in Norway, but it is 101 in Ethiopia.

Mainstream economists have argued that the poor nations are simply on a low rung of a "development ladder," and that over time, especially if they adopt "free market" principles (basically the elimination of all barriers to the freedom of employers to try to make money, such as protective trade barriers, protective labor laws, subsidies to the poor, public enterprises, and limitations on the sale of land), they will become rich countries too. This convergence hypothesis is difficult to demonstrate. While a very few formerly poor nations, mostly in Asia, have become relatively rich ones (South Korea, for example), most have remained poor. In fact, Lance Pritchett, a World Bank economist, has persuasively argued that the world's poorest countries diverged in terms of per capita income from 1870 to 1960. The logic underlying Pritchett's methodology is interesting. He compared one of the world's richest nation, the United States, to one of its poorest, Ethiopia. He took the per capita GDP ratio for the United States and Ethiopia for 1960 (U.S. GDP per capita divided by Ethiopia GDP per capita) and noted that there could only have been convergence if the per capita GDP ratio had been larger in 1870. But for this to be true, Ethiopia's per capita GDP in 1870 would have been too low to sustain life! Therefore Pritchett concluded that there must have been divergence.

We also have good evidence that divergence continued after 1960, accelerating after 1980 when "free market" policies were introduced throughout the world on an increasing scale. Between 1980 and 2000, those countries with the highest GDPs per capita grew the most, implying that inequality among nations increased. The British magazine, The Economist, citing economists who believe that international inequality has decreased, argued that we need to weight each country's per capital GDP by its population. When we do this, we note that the two most populous countries, India and China, had very high average growth rates over this period, suggesting that in terms of population-weighted growth rates, worldwide inequality decreased. However, what The Economist failed to note was that, as we have seen, inequality within India and China rose, most notably in China. China's and India's per capita GDP grew rapidly, but the incomes of the average Chinese and Indian did not. So, in the face of this fact, it is hard to argue that inequality has fallen.
POVERTY AND INEQUALITY

Even if we consider a poor nation that has grown more rapidly than a rich one, this relatively greater growth will have to continue for a very long time for per capita incomes to converge. Pritchett has this to say about India, a country which grew faster than the United States for a while and which is growing rapidly now:

...a few developing countries were actually “converging,” that is, they were growing faster than the United States. When are these lucky “convergers” going to overtake the United States? India, for example, registered an annual average growth rate of 3 percent between 1980 and 1993. If India could sustain this pace for another 100 years, its income would reach the level of high-income countries today. And, if India can sustain this growth differential for 377 years, my great-great-great-great-great-great-great-great-grandchildren will be alive to see India’s income level “converge.”

Given all of this, it is difficult not to conclude that inequality, both within and among nations, must be endemic to capitalism. It is not very hard to see why. Wealth in a capitalist economy is unevenly divided by definition: Capitalism is an economic system in which the nonhuman means of production (what mainstream economists call “capital”) are owned by a small minority of all persons. Wealth inequality in a market economy must, again as a consequence of the nature of the system, generate income inequality. A capitalist system always “builds” on the best, that is, other things equal, those with the most to start with continue to reap the lion’s share of the annual income. So, when capitalist economies are not subject to constraints and regulations, inequality will inevitably grow.

In other words, what underlies inequality is the class nature of capitalism. The owning minority has a built-in advantage compared to the nonowning minority, both in terms of economic power inside the workplace and political power in the larger society. Whenever they can, they will press their advantage to secure a still larger share of society’s income. Examples are too numerous to mention.

What then sustains the growing inequality both among nations and within nations is the rising power of the owners and the declining power of the workers (and in poor countries, of the peasants, as well). If we look at the world objectively, the income of a nation tends to be more equally divided the more powerful are the workers and peasants. Where they are weak in poor countries, these countries are pulled more tightly into the grip of the rich nations and intercountry inequality rises. Inequality
also rises within these nations, while the incomes of the poor sink to levels barely able to sustain life, if that. This is true even when per capita GDP rises at a high rate. Similarly, in the rich countries, the weaker the workers, the greater the inequality, and the less likely it is that workers will reach out in solidarity with their brothers and sisters in the poor nations. It is no accident that the United States has both the weakest labor movement and the most unequal income of any rich country.

Inequality in income and wealth (and all of the social indicators which are linked to these inequalities) are a profound contradiction of the capitalist mode of production. Workers and their employers presumably meet as equals in the labor market, each free to make a bargain. Yet the results of this bargain favor the employers to a striking degree.

In capitalist economies, everyone is free to make money, but it is remarkable how few do. Capitalist economies espouse egalitarian values, but the consequences of their normal operations are extraordinarily inequgalitarian. The same contradiction is apparent in relationships among nations. Countries enter into free trade relationships, but the consequences of this trade are enormous disparities in per capita GDP.

A contradiction so blatant requires resolution. On the one hand, workers and peasants have been forming diverse types of organizations to reverse the system-generated inequalities. These have had varying degrees of success, managing sometimes to wring concessions from the owners and on rarer occasions succeeding in making a revolution that transforms the entire system. But on the other hand, capitalists and their multitude of hired guns try to keep the contradiction from generating actions that threaten their existence. Needless to say, force and violence are critical elements in the ruling-class arsenal, especially when revolution threatens. However, there are many other weapons, including cooptation of working-class and peasant leaders, making strategic concessions (best exemplified by the “social pact” between employers and unions in Western Europe and to a lesser degree the United States), and a vast ideological apparatus geared to convincing people that there is no contradiction at all. With respect to the last of these, we are fed a daily diet of procapitalist propaganda, complete with missing or distorted information: workers are really “associates”; the suggestion that the rich benefit in this system at the expense of the poor is denounced as the “politics of hate”; poor nations are falling further behind the rich ones because they have not sufficiently embraced the free market; and on and on.

The glaring and growing inequalities everywhere apparent in the cap-
italist world have yet to spawn massive resistance. In fact, in the United States, working people often support government policies clearly inimical to their interests, such as the repeal of the estate tax and income tax cuts strongly biased toward the rich. 14 However, there are indications that troubles might be brewing for the rich and powerful. Under the radar screen, a kind of “social war” is being waged in poor neighborhoods around the world. While this war often involves intraclass violence, it has also terrified the elite. Writing in Le Monde Diplomatique, Ignacio Ramonet tells us:

Faced with this rising tide of what the media calls insecurity, several countries—including Mexico, Colombia, Nigeria and South Africa—now spend more on fighting this social war than on national defence. Brazil spends 2% of GDP on its armed forces and more than 10.6% on protecting the rich against the despair of the poor. 15

More publicized have been a wide range of social movements aimed in one way or another at addressing global inequality: armed revolutionary struggles in Colombia and Nepal; peasant movements throughout Latin America, most recently in Bolivia; movements of the poor and unemployed in countries as disparate as Argentina and South Africa; and a far-flung and wide-ranging global justice movement, encompassing campaigns against third world debt, child labor, sweatshops, trade agreements, land theft, and environmental destruction, among others.

It is impossible to tell how all of this “primitive” and more conscious protest will play out. But one gets the feeling that political struggle in the next decades might be intimately tied to the glaring and unconscionable inequality which has become the hallmark of contemporary capitalism. Under these conditions the system is unlikely to be entirely successful at keeping the lid on the boiling discontent underneath.

Notes
1. Details of DeLong’s contentions, including draft material for a book, Slouching Toward Utopia can be found at http://econ161.berkeley.edu/TCEH/Slouch_title.html.
2. For details on poverty, see Lawrence Mishel, Jared Bernstein, and Heather Boushey, The State of Working America, 2002–2003 (Ithaca, N.Y.: Cornell University Press, 2003), 309–56. For the most recent U.S. Census Bureau data see http://www.census.gov. For international comparisons using the 50 percent of median income definition, see Mishel, State, 416.

Fifty Years Ago

There is no more “anti-Americanism” in Europe than during the war—than there is normally friction at the fringes of cultures. Not, that is, the type of “tension” which sociology studies, and which arises from misunderstanding, leads to a stereotype hatred of all Americans, or wants to see Americans in trouble.

This is an important fact, because some enlightened professional crusaders, Communist and anti-Communist, have claimed merit for hating policies without hating peoples: the “anti-Americanism” of Europe is predominantly in this category. It is discriminate. It does not hate you, but the people you accept as your policymakers. It particularly dislikes the cruelty, irresponsibility, and truculence of one or two military gentlemen whose utterances have been reported, perhaps selectively, and whose actions have disgusted millions.