Global Wealth and Poverty*

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Abstract

- Understand the differences between relative, absolute, and subjective poverty
- Describe the economic situation of some of the world's most impoverished areas
- Explain the cyclical impact of the consequences of poverty

Figure 1: How poor is poor for these beggar children in Vietnam? (Photo courtesy of Augapfel/flickr)

What does it mean to be poor? Does it mean being a single mother with two kids in New York City, waiting for her next paycheck before she can buy groceries? Does it mean living with almost no furniture in your apartment because your income doesn't allow for extras like beds or chairs? Or does it mean the distended bellies of the chronically malnourished throughout the peripheral nations of Sub-Saharan Africa and South Asia? Poverty has a thousand faces and a thousand gradations; there is no single definition that

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pulls together every part of the spectrum. You might feel you are poor if you can't afford cable television or your own car. Every time you see a fellow student with a new laptop and smartphone you might feel that you, with your ten-year-old desktop computer, are barely keeping up. However, someone else might look at the clothes you wear and the calories you consume and consider you rich.

1 Types of Poverty

Social scientists define global poverty in different ways, taking into account the complexities and the issues of relativism described above. **Relative poverty** is a state of living where people can afford necessities but are unable to meet their society's average standard of living. People often disparage "keeping up with the Joneses"—the idea that you must keep up with the neighbors' standard of living to not feel deprived. But it is true that you might feel "poor" if you are living without a car to drive to and from work, without any money for a safety net should a family member fall ill, and without any "extras" beyond just making ends meet.

Contrary to relative poverty, people who live in **absolute poverty** lack even the basic necessities, which typically include adequate food, clean water, safe housing, and access to health care. Absolute poverty is defined by the World Bank (2011) as when someone lives on less than a dollar a day. A shocking number of people—-88 million—-live in absolute poverty, and close to 3 billion people live on less than $2.50 a day (Shah 2011). If you were forced to live on $2.50 a day, how would you do it? What would you deem worthy of spending money on, and what could you do without? How would you manage the necessities—and how would you make up the gap between what you need to live and what you can afford?

Figure 2: Slums in India illustrate absolute poverty all too well. (Photo courtesy of Emmanuelle Dyan/flickr)

Subjective poverty describes poverty that is composed of many dimensions; it is subjectively present when your actual income does not meet your expectations and perceptions. With the concept of subjective poverty, the poor themselves have a greater say in recognizing when it is present. In short, subjective poverty has more to do with how a person or a family defines themselves. This means that a family subsisting on

a few dollars a day in Nepal might think of themselves as doing well, within their perception of normal. However, a westerner traveling to Nepal might visit the same family and see extreme need.

: What do the driver of an unlicensed hack cab in New York, a piecework seamstress working from her home in Mumbai, and a street tortilla vendor in Mexico City have in common? They are all members of the **underground economy**, a loosely defined unregulated market unhindered by taxes, government permits, or human protections. Official statistics before the worldwide recession posit that the underground economy accounted for over 50 percent of non-agricultural work in Latin America; the figure went as high as 80 percent in parts of Asia and Africa (Chen 2001). A recent article in the *Wall Street Journal* discusses the challenges, parameters, and surprising benefits of this informal marketplace. The wages earned in most underground economy jobs, especially in peripheral nations, are a pittance—-a few rupees for a handmade bracelet at a market, or maybe 250 rupees (around five U.S. dollars) for a day's worth of fruit and vegetable sales (Barta 2009). But these tiny sums mark the difference between survival and extinction for the world's poor.

The underground economy has never been viewed very positively by global economists. After all, its members don't pay taxes, don't take out loans to grow their businesses, and rarely earn enough to put money back into the economy in the form of consumer spending. But according to the International Labor Organization (an agency of the United Nations), some 52 million people worldwide will lose their jobs due to the ongoing worldwide recession. And while those in core nations know that unemployment rates and limited government safety nets can be frightening, it is nothing compared to the loss of a job for those barely eking out an existence. Once that job disappears, the chance of staying afloat is very slim.

Within the context of this recession, some see the underground economy as a key player in keeping people alive. Indeed, an economist at the World Bank credits jobs created by the informal economy as a primary reason why peripheral nations are not in worse shape during this recession. Women in particular benefit from the informal sector. The majority of economically active women in peripheral nations are engaged in the informal sector, which is somewhat buffered from the economic downturn. The flip side, of course, is that it is equally buffered from the possibility of economic growth.

Even in the United States, the informal economy exists, although not on the same scale as in peripheral and semi-peripheral nations. It might include under-the-table nannies, gardeners, and housecleaners, as well as unlicensed street vendors and taxi drivers. There are also those who run informal businesses, like daycares or salons, from their houses. Analysts estimate that this type of labor may make up 10 percent of the overall U.S. economy, a number that will likely grow as companies reduce head counts, leaving more workers to seek other options. In the end, the article suggests that, whether selling medicinal wines in Thailand or woven bracelets in India, the workers of the underground economy at least have what most people want most of all: a chance to stay afloat (Barta 2009).

2 Who Are the Impoverished?

Who are the impoverished? Who is living in absolute poverty? The truth that most of us would guess is that the richest countries are often those with the least people. Compare the United States, which possesses a relatively small slice of the population pie and owns by far the largest slice of the wealth pie, with India. These disparities have the expected consequence. The poorest people in the world are women and those in peripheral and semi-peripheral nations. For women, the rate of poverty is particularly exacerbated by the pressure on their time. In general, time is one of the few luxuries the very poor have, but study after study has shown that women in poverty, who are responsible for all family comforts as well as any earnings they can make, have less of it. The result is that while men and women may have the same rate of economic poverty, women are suffering more in terms of overall wellbeing (Buvinic 1997). It is harder for females to

get credit to expand businesses, to take the time to learn a new skill, or to spend extra hours improving their craft so as to be able to earn at a higher rate.

2.1 Africa

The majority of the poorest countries in the world are in Africa. That is not to say there is not diversity within the countries of that continent; countries like South Africa and Egypt have much lower rates of poverty than Angola and Ethiopia, for instance. Overall, African income levels have been dropping relative to the rest of the world, meaning that Africa as a whole is getting relatively poorer. Exacerbating the problem, 2011 saw the beginning of a drought in Northeast Africa that could bring starvation to millions in the region.

Why is Africa in such dire straits? Much of the continent's poverty can be traced to the availability of land, especially arable land (land that can be farmed). Centuries of struggle over land ownership have meant that much useable land has been ruined or left unfarmed, while many countries with inadequate rainfall have never set up an infrastructure to irrigate. Many of Africa's natural resources were long ago taken by colonial forces, leaving little agricultural and mineral wealth on the continent.

Further, African poverty is worsened by civil wars and inadequate governance that are the result of a continent re-imagined with artificial colonial borders and leaders. Consider the example of Rwanda. There, two ethnic groups cohabitated with their own system of hierarchy and management until Belgians took control of the country in 1915 and rigidly confined members of the population into two unequal ethnic groups. While, historically, members of the Tutsi group held positions of power, the involvement of Belgians led to the Hutu's seizing power during a 1960s revolt. This ultimately led to a repressive government and genocide against Tutsis that left hundreds of thousands of Rwandans dead or living in diaspora (U.S. Department of State 2011c). The painful rebirth of a self-ruled Africa has meant many countries bear ongoing scars as they try to see their way towards the future (World Poverty 2012a).

2.2 Asia

While the majority of the world's poorest countries are in Africa, the majority of the world's poorest people are in Asia. As in Africa, Asia finds itself with disparity in the distribution of poverty, with Japan and South Korea holding much more wealth than India and Cambodia. In fact, most poverty is concentrated in South Asia. One of the most pressing causes of poverty in Asia is simply the pressure that the size of the population puts on its resources. In fact, many believe that China's success in recent times has much to do with its draconian population control rules. According to the U.S. State department, China's market-oriented reforms have contributed to its significant reduction of poverty and the speed at which it has experienced an increase in income levels (U.S. Department of State 2011b). However, every part of Asia is feeling the current global recession, from the poorest countries whose aid packages will be hit, to the more industrialized ones whose own industries are slowing down. These factors make the poverty on the ground unlikely to improve any time soon (World Poverty 2012b).

2.3 Latin America

Poverty rates in some Latin American countries like Mexico have improved recently, in part due to investment in education. But other countries like Paraguay and Peru continue to struggle. Although there is a large amount of foreign investment in this part of the world, it tends to be higher-risk speculative investment (rather than the more stable long-term investment Europe often makes in Africa and Asia). The volatility of these investments means that the region has been unable to leverage them, especially when mixed with high interest rates for aid loans. Further, internal political struggles, illegal drug trafficking, and corrupt governments have added to the pressure (World Poverty 2012c).

Argentina is one nation that suffered from increasing debt load in the early 2000s, as the country tried to fight hyperinflation by fixing the peso to the U.S. dollar. The move hurt the nation's ability to be competitive in the world market and ultimately created chronic deficits that could only be financed by massive borrowing

from other countries and markets. By 2001, so much money was leaving the country that there was a financial panic, leading to riots and ultimately, the resignation of the president.

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Figure 3: This protester seeks to bring attention to the issue of sweatshops. (Photo courtesy of Ohio AFL-CIO Labor 2008/flickr)

Most of us don't pay too much attention to where our favorite products are made. And certainly when you're shopping for a college sweatshirt or ball cap to wear to a school football game, you probably don't turn over the label, check who produced the item, and then research whether or not the company has fair labor practices. But for the members of USAS—-United Students Against Sweatshops—-that's exactly what they do. The organization, which was founded in 1997, has waged countless battles against both apparel makers and other multinational corporations that do not meet what USAS considers fair working conditions and wages (USAS 2009).

Sometimes their demonstrations take on a sensationalist tone, as in 2006 when 20 Penn State students protested while naked or nearly naked, in order to draw attention to the issue of sweatshop labor. The school is actually already a member of an independent monitoring organization called Worker Rights Consortium (WRC) that monitors working conditions and works to assist colleges and universities with maintaining compliance with their labor code. But the students were protesting in order to have the same code of conduct applied to the factories that provide materials for the goods, not just where the final product is assembled (Chronicle of Higher Education 2006).

The USAS organization has chapters on over 250 campuses in the United States and Canada and has waged countless campaigns against companies like Nike and Forever 21 apparel, Taco Bell restaurants, and Sodexo food service. In 2000, members of USAS helped to create WRC. Schools that affiliate with WRC pay annual fees that help offset the organization's costs. Over 180 schools are affiliated with the organization. Yet, USAS still sees signs of inequality everywhere. And the members feel that, as current and future workers, it is within their scope of responsibility to ensure

that workers of the world are treated fairly. For them, at least, the global inequality that we see everywhere should not be ignored for a team spirit sweatshirt.

3 Consequences of Poverty

Figure 4: For this child at a refugee camp in Ethiopia, poverty and malnutrition are a way of life. (Photo courtesy of DFID - UK Department for International Development/flickr)

Not surprisingly, the consequences of poverty are often also causes. The poor often experience inadequate health care, limited education, and the inaccessibility of birth control. But those born into these conditions are incredibly challenged in their efforts to break out since these consequences of poverty are also causes of poverty, perpetuating a cycle of disadvantage.

According to sociologists Neckerman and Torche (2007) in their analysis of global inequality studies, the consequences of poverty are many. They have divided the consequences into three areas. The first, termed "the sedimentation of global inequality," relates to the fact that once poverty becomes entrenched in an area, it is typically very difficult to reverse. As mentioned above, poverty exists in a cycle where the consequences and causes are intertwined. The second consequence of poverty is its effect on physical and mental health. Poor people face physical health challenges, including malnutrition and high infant mortality rates. Mental health is also detrimentally affected by the emotional stresses of poverty, with relative deprivation carrying the most robust effect. Again, as with the ongoing inequality, the effects of poverty on mental and physical health become more entrenched as time goes on. Neckerman and Torche's third consequence of poverty is the prevalence of crime. Cross-nationally, crime rates are higher, particularly with violent crime, in countries with higher levels of income inequality (Fajnzylber, Lederman and Loayza 2002).

4 Slavery

While most of us are accustomed to thinking of slavery in terms of the antebellum South, modern day slavery goes hand-in-hand with global inequality. In short, slavery refers to any time people are sold, treated as

property, or forced to work for little or no pay. Just as in pre-Civil War America, these humans are at the mercy of their employers. **Chattel slavery**, the form of slavery practiced in the pre-Civil War American South, is when one person owns another as property. Child slavery, which may include child prostitution, is a form of chattel slavery. **Debt bondage**, or bonded labor, involves the poor pledging themselves as servants in exchange for the cost of basic necessities like transportation, room, and board. In this scenario, people are paid less than they are charged for room and board. When travel is involved, people can arrive in debt for their travel expenses and be unable to work their way free, since their wages do not allow them to ever get ahead.

The global watchdog group Anti-Slavery International recognizes other forms of slavery: human trafficking (where people are moved away from their communities and forced to work against their will), child domestic work and child labor, and certain forms of servile marriage, in which women are little more than chattel slaves (Anti-Slavery International 2012).

5 Summary

When looking at the world's poor, we first have to define the difference between relative poverty, absolute poverty, and subjective poverty. While those in relative poverty might not have enough to live at their country's standard of living, those in absolute poverty do not have, or barely have, basic necessities such as food. Subjective poverty has more to do with one's perception of one's situation. North America and Europe are home to fewer of the world's poor than Africa, which has most poor countries, or Asia, which has the most people living in poverty. Poverty has numerous negative consequences, from increased crime rates to a detrimental impact on physical and mental health.

6 Section Quiz

Exercise 1 ***(Solution on p. 10.)***

Slavery in the pre-Civil War American South most closely resembled

a. chattel Slavery
b. debt Bondage
c. relative Poverty
d. peonage

Exercise 2 ***(Solution on p. 10.)***

Maya is a 12-year-old girl living in Thailand. She is homeless, and often does not know where she will sleep or when she will eat. We might say that Maya lives in _____ poverty.

a. subjective
b. absolute
c. relative
d. global

Exercise 3 ***(Solution on p. 10.)***

Mike, a college student, rents a studio apartment. He cannot afford a television and lives on cheap groceries like dried beans and ramen noodles. Since he does not have a regular job, he does not own a car. Mike is living in:

a. global poverty
b. absolute poverty
c. subjective poverty
d. relative poverty

Exercise 4 *(Solution on p. 10.)*

Faith has a full-time job and two children. She has enough money for the basics and can pay her rent each month, but she feels that, with her education and experience, her income should be enough for her family to live much better than they do. Faith is experiencing:

a. global poverty
b. subjective poverty
c. absolute poverty
d. relative poverty

Exercise 5 *(Solution on p. 10.)*

In an American town, a mining company owns all the stores and most of the houses. They sell goods to the workers at inflated prices, offer house rentals for twice what a mortgage would be, and make sure to always pay the workers less than needed to cover food and rent. Once the workers are in debt, they have no choice but to continue working for the company, since their skills will not transfer to a new position. This most closely resembles:

a. child slavery
b. chattel slavery
c. debt slavery
d. servile marriage

7 Short Answer

Exercise 6

Consider the concept of subjective poverty. Does it make sense that poverty is in the eye of the beholder? When you see a homeless person, is your reaction different if he or she is seemingly content versus begging? Why?

Exercise 7

Think of people among your family, your friends, or your classmates who are relatively unequal in terms of wealth. What is their relationship like? What factors come into play?

Exercise 8

Go to your campus bookstore or visit its website. Find out who manufactures apparel and novelty items with your school's insignias. In what countries are these produced? Conduct some research to determine how well your school adheres to the principles advocated by ASUS.

8 Further Research

Students often think that America is immune to the atrocity of human trafficking. Check out the following link to learn more about trafficking in the U.S.: http://www.justice.gov/usao/md/Human-Trafficking/index.html[1]

For more information about the ongoing practices of slavery in the modern world click here: http://www.antislavery.org/eng

[1] http://www.justice.gov/usao/md/Human-Trafficking/index.html
[2] http://www.antislavery.org/english

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[3] http://www.antislavery.org/english/slavery_today/what_is_modern_slavery.aspx
[4] http://online.wsj.com/article/SB123698646833925567.html
[5] http://chronicle.com/article/Nearly-Nude-Penn-Staters/36772
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[9] http://www.state.gov/r/pa/ei/bgn/2861.htm#econ
[10] http://usas.org
[11] http://www.worldbank.org
[12] http://world-poverty.org/povertyinafrica.aspx
[13] http://world-poverty.org/povertyinasia.aspx
[14] http://world-poverty.org/povertyinlatinamerica.aspx

Solutions to Exercises in this Module

to Exercise (p. 7): Answer
A
to Exercise (p. 7): Answer
B
to Exercise (p. 7): Answer
D
to Exercise (p. 8): Answer
B
to Exercise (p. 8): Answer
C

Glossary

Definition 1: absolute poverty
the state where one is barely able, or unable, to afford basic necessities

Definition 2: chattel slavery
a form of slavery in which one person owns another

Definition 3: debt bondage
when people pledge themselves as servants in exchange for money for passage, and are subsequently paid too little to regain their freedom

Definition 4: relative poverty
the state of poverty where one is unable to live the lifestyle of the average person in the country

Definition 5: subjective poverty
a state of poverty composed of many dimensions, subjectively present when one's actual income does not meet one's expectations

Definition 6: underground economy
an unregulated economy of labor and goods that operates outside of governance, regulatory systems, or human protections