**7. Rich-Poor Gap**
**How can ethical market economies be encouraged to help reduce the gap between rich and poor?**

The global financial crisis and recession has stimulated the G-8, G-20, and others to rethink the basic assumptions of economics and finance. The worldwide trend of poverty reduction continues, but at a lower rate due to the global recession and the combined food, fuel, and financial crises. Although remittance flows to poorer countries have more than doubled since 2002, they are likely to fall substantially this year. Yet major development assistance continues to grow to $119.8 billion in 2008 and $145.1 billion in 2010.

About 1 billion people live on $1.25/day and 2.2 billion on $2/day. The IMF estimated that the world economy grew 5.2% in 2007 and 3.4% in 2008, reaching $69.5 trillion (PPP) or $62.25 trillion (exchange rates), while the World Bank expects the world economy to contract by 3% in 2009 but to grow again at 2.3% in 2010. UN estimates developing countries to recover and grow at 7% if development polices are coordinated. WTO predicts world trade volume to shrink by 9% this year. Assuming the world slowdown does not last longer than several years, the world is on track to halve the 1990 poverty rate (except in sub-Saharan Africa) by 2015, but due to high population growth, about a billion people may still live on less than $1.25 a day in 2015.

Although half the world has become middle-class, the ILO reports that half the jobs are insecure, 80% of workers do not have adequate social protection, and global unemployment rates could reach 6.5–7.4% in 2009, although 30% if underemployment is included. Youth unemployment could reach 15%. The world needs a long-term strategic plan for a global partnership between rich and poor to improve economic security and create 50 million jobs per year over the next 10 years in developing countries. Such a plan should use the strength of free markets and rules based on global ethics. The World Bank proposes a “Vulnerability Fund” to which industrial countries would contribute 0.7% of their stimulus package to help mitigate the effects of the current crises on the poor. Hundreds of billions of dollars in carbon emissions trading income could go to the developing world.

Foreign direct investment decreased 20% to $1.4 trillion in 2008. Only 79% of exports from least developed countries get duty-free access to industrial countries, despite the 97% target set in 2005. Reduction of tariffs on agriculture exports is slow, although WTO has agreed to eliminate agriculture export subsidies by 2013. UNDP estimates that these subsidies cost developing countries $72 billion per year. The World Bank estimates that tax evasion costs developing countries $800 billion a year.

The high tech–low wage conditions of China and India make it very difficult for other developing countries to compete; hence, developing countries should rethink their export-led growth strategies. In addition to improved agricultural and industrial productivity investments for domestic markets, technical assistance to leapfrog into new activities via tele-education and tele-work should be coupled with microcredit mechanisms for people to seek markets rather than non-existent jobs. International migration and globalization are effective tools for reducing poverty while also improving economic efficiency by matching skills with demand. Ethical market economies require improved fair trade, increased economic freedom, a “level playing field” guaranteed by an honest judicial system and by governments that provide political stability, a chance to participate in local development decisions, business incentives to comply with social and environmental goals, a healthy investment climate, and access to land, capital, and information. The Index of Economic Freedom and the Corruption Perceptions Index show that reducing corruption and increasing freedom correlates with improved economic development. An alternative to trying to beat the brain drain is to connect people overseas to the development process back home by a variety of Internet systems.

Challenge 7 will be addressed seriously when market economy abuses and corruption by companies and governments are intensively prosecuted and when the development gap—by all definitions—declines in 8 out of 10 years.

**Regional Considerations**

**Africa:** The rapidly evolving Chinese-African alliances for energy, food, agriculture, and economic development are a new geopolitical reality that could help reduce income gaps for both sides. Despite increasing ODA and an average of 5% economic growth for the past 10 years, half of Africa has consistently been in extreme poverty for the past 25 years, due in part to rapid population growth. Half of the world’s children out of school are in sub-Saharan Africa. The region’s development continues to be impeded by high birth rates, an infrastructure gap, high indirect costs, corruption, armed conflicts, poor governance, environmental degradation, climate change, poor health conditions, and lack of education. The New Partnership for Africa’s Development provides a framework for development. Government budgets should be tied to local self-help, and culture should become more scientifically and entrepreneurially oriented.

**Asia and Oceania:** China has a current account balance of $368.2 billion, was the world’s second largest economy ($7.8 trillion in PPP) and second largest exporter ($1.4 trillion) in 2008, and has nearly doubled outward FDI. But its increasing water and energy problems and its rich-poor gap (the highest in Asia) threaten its continued economic growth. The East Asian poverty rate decreased from 80% in 1981 to 18% today. The economic crises might affect 56–80 million people in East and South Asia, about half of whom are in India, while China and India need to create 8–10 million jobs annually for young people entering the work force.

**Europe:** FDI by EU-based companies fell 28% in 2008, to €354 billion, while investments to the EU by companies based outside the bloc fell 57% to €173 billion. EU allocates €50 billion for troubled non-euro member states and €75 billion to the IMF to help cope with the crisis. The combination of aging population, shrinking middle class in some countries, and expensive public services is not sustainable without increasing numbers of immigrants and more tele-entrepreneurs among retired Europeans. EU enlargement continues to expand ethical markets and harmonize legal systems, yet the rich-poor gaps widen, social services are cut, and work migrates to lower-wage countries. Several countries are offering migrant workers incentives to return to their home countries. Russia continues to have the fastest-growing economy in Europe, at 8.1% in 2007, 5.6% in 2008, and estimated 6% for 2009.

**Latin America:** FDI was at a record high in 2008, close to $129 billion, but likely to fall by 35–45% because of the financial crisis. ECLAC notes that 10–15 million more people could slip below the poverty line, and about 25% of young people are excluded from the labor market and the education system. To reduce the rich-poor gap, distribution of the means of production and land tenure should change, including larger participation of lower-income people in all phases of development projects and improved salaries paid by major international companies. Economic growth is expected to shrink in 2009 by almost 1% on average, but in Mexico and Central America by 4%. Mexico is experiencing its worse recession, being double-hit by the U.S. financial crisis and H1N1 influenza. An estimated 30% of Mexican adults are unable to find full-time work. The Union of South American Nations founded in May 2008 has stalled, as nations fail to reach agreement.

**North America:** The U.S. is the most indebted country, at $11.3 trillion. The Congressional Budget Office showed that the rich-poor gap tripled in the U.S. between 1979 and 2006. Its negative current account balance of $568.8 billion helped employment overseas but increased joblessness at home and decreased confidence in the U.S. dollar. Canada’s unemployment was 8.4% in May 2009; the figure in the U.S. was 9.4%, with 14.5 million unemployed. Wall Street executives received an estimated $18.4 billion in bonuses in 2008.

**Graph:** Share of people living on less than $1.25 a day (%)

Source: World Bank Regional Aggregation and Millennium Development Goals

