BY ROBERT J. BARRO

THE U.N. IS DEAD WRONG ON POVERTY AND INEQUALITY

UPSWING: Since 1970, world poverty has in fact shrunk markedly, and with China and India growing fast, inequality has, too

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According to the U.N., growing poverty and inequality are the world's main economic threats, and unchecked globalization and market expansion are largely to blame. For example, the 1999 Human Development Report says: "When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably...The past decade has shown increasing concentration of income, resources, and wealth." In response to the perceived threat, the U.N. proposes to improve governance, by which it means an increase in the power of international organizations, especially the U.N. But before opting for more world government, perhaps we should explore the facts about inequality.

One point is that poverty and inequality are two different concepts. Poverty refers to the fraction of the population, or the number of people, whose income falls below a designated amount intended to reflect some minimally acceptable standard of living. To be meaningful, the standard must remain fixed over time; two common ones are thresholds of $1 or $2 per day (in 1985 dollars). In today's dollars, these standards translate into annual per capita incomes of about $500 and $1,000.

When measured in these terms, world poverty has fallen dramatically in the past 30 years. Xavier Sala-i-Martin estimates in an unpublished study, "The World Distribution of Income" (Columbia University), that the number of people in extreme poverty—below the $1-a-day standard—fell from 550 million, or 17% of the world's population in 1970, to 350 million, or 6.7% of the population at the end of the 1990s. For the $2-a-day standard, the decline was from 1.3 billion people, or 41% of the population, to 970 million, or 19% of the population. Thus, the past 30 years have seen a dramatic decline in world poverty—not exactly the picture painted by the U.N.

For world inequality, we can think of the changes in two parts. The first is within countries, the second is across countries. Inequality has risen in the past 30 years within several countries, including the U.S., Britain, Australia, and China. Considering the world as a whole (by weighting according to the populations of all of the countries), Sala-i-Martin shows that this factor implies a rise in world income inequality. But he also shows that this effect is small. More important are the cross-country changes in the dispersion of average incomes.

Looking across countries, one's first impression is that the spread of average incomes has risen since 1970. For example, the ratio of the highest per capita incomes (in the U.S. and Western Europe) to the poorest (in sub-Saharan Africa) has grown. However, this change was more than offset by the rise in income in the world's two largest countries, China and India. China, which now has 21% of world population, has grown rapidly since 1978. India, which has 17% of world population, has also grown fast since 1990. Since these countries were poor in the 1970s, and since they account for 38% of the world's population, their rapid economic ascent implies a substantial narrowing of world inequality.

One irony is that continued rapid growth in China and India in the next decade is likely to lead to rising world income inequality. That is because these countries would continue to converge toward the world's richest countries and away from the world's poorest in Africa. However, a reasonable assessment is that the problem is not rapid growth in China and India but, rather, slow growth in Africa.

Since China and India had many people in poverty in the 1970s, their fast growth is a key factor behind the reductions in world poverty. Developments in two other large countries also mattered significantly—fast growth in Indonesia (through 1997) and disastrous negative growth in Nigeria. The success stories in Asia mean that Africa now plays a dominant role in world poverty. Sala-i-Martin estimates that at the end of the 1990s, 66% of those with incomes below $1 a day resided in sub-Saharan Africa. In 1970, this fraction was only 11%. At the $2-a-day level, the comparable figures are 38% and 11%. Further reducing world poverty will require a greater focus on the African poor. Given the low average incomes in African countries, income redistribution is no answer. The main solution has to involve raising the overall rates of economic growth in Africa.

The U.N. Human Development Reports should base their assessments of world poverty and inequality on a better understanding of the facts. It is incorrect to argue that world poverty and inequality have been rising over the past 30 years and then to attribute this fictional development to unchecked globalization and market expansion. These poorly grounded observations from an apparently respectable source feed into the false arguments of the world's "globaphobes," who are generally opposed to economic development. Globaphobia will neither help to reduce world poverty nor spur economic growth in Africa. ■

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