



Course: World economy

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Contents: At the beginning of the lecture, students will be familiar with the educational objectives aimed to characterize the Risks in world economy - Problem of world poverty.

- Definition of poverty
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Definition of poverty

The definition of poverty is not definite, there are different viewpoints. **Encyclopedic dictionary definition:** Poverty is a lack of Typical material needs of everyday life; economical securing or social relationship, liberty.

The **WB** understands poverty as complex, multidimensional issue which contains many phenomenon as:

- inability to satisfy basic needs,
- insufficient access to resources,
- lack of knowledge and skills,
- bad health,
- malnutrition,

- lack of quality accommodation,
- insufficient hygiene,
- tendency to sudden changes, violence and criminality,
- lack of political freedom and opportunity to assert in society.

Consideration of poverty

The **Copenhagen declaration** characterizes poverty as a lack of human rights, lack of basic food, drinking water, medical and hygienic securing, legal protection, education and access to information.

The World Bank defines extreme poverty as financial income for one person less than 1\$ per day according to PPP (Purchasing Power Parity).

Types of poverty

Condition of poverty can be divided into five different groups in general:

- **Absolute poverty** - inability to satisfy basic needs as food or clothing.
- **Relative poverty** - individual or family satisfies its needs less than is average in a society.
- **Extreme poverty** - financial income for one person is less than 1\$ per day (lack of three basic needs – food, clothing, accommodation).
- **Material poverty** - insufficient income to secure basic living conditions.
- **Social poverty** - inability to secure social needs.

Dimensions of poverty

1. Health

In the Human Development Index – *HDI* health is defined as „median life span“ in certain country. In developing countries it is much shorter than in developed countries. Every year millions of poor people die because of lack (or financial inaccessibility) of quality health care. The main causes of death are:

- High mortality of mother and children in childbirth,
- high mortality of children under five years,
- diseases caused by contaminated water,
- pneumonia,
- tuberculosis,
- HIV&AIDS.

2. Education

The Human Development Index measures education as percentage of adult population who are analphabet.

3. Access to services

Health care and education, sewer and waste collection, electricity, water and transport service accessibility, telecommunication and information service or functional police.

4. Infrastructure

Insufficient infrastructure causes social isolation of poor inhabitants. They can't get to schools, hospitals, offices and they can't trade effectively or attend social life with people who don't live in their neighborhood.

5. Safety

In poor suburbs gangs often operate and endanger life of especially poor inhabitants. Natural disasters or war conflicts.

6. Social isolation

Social isolation concerns group, not individual in general. It can be direct (apartheid, refusal of vote) or indirect (discrimination, social disadvantage) mechanism.

7. Other dimensions

For example inability to attend social and religion life or inability of shameless public self-presentation.

Indicators and ways of poverty measurement

Indicators which allows to measure poverty:

- HDI
- incomes and consumption,
- social indicators – local or national,
- indicators which measures risks vulnerability etc.,
- poverty line.

Poverty line

It is minimal level material welfare which is in certain society considered to be acceptable and everyone who is bellow this level is considered to be poor. Usually is this level defined by incomes or consumption.

$$P = (H/n) \times 100$$

„H“ is number of people living under poverty line, „n“ is total population

„P“ is percentage of population living under poverty line or it is poverty rate.

Problems in poverty measurement

There is not one poverty line (minimal level material welfare). This line changes in time and in each country. Poverty is relative term, because it is impossible to set universal poverty line without concerning specific social and culture standards. Measurement and studying of poverty and its changes in time and each country is very difficult.

Reasons of poverty

1. Political causes

a) Armed conflicts Decrease financial, human and strategic resources which could be used for development of the country. (Often contribute to indebtedness of respective states)

b) Inconsistent arms embargo Lack of guns would end wars and force both sides to negotiate.

c) Highly corrupted setting Corruption lowers financial resources which could be used for development, supports bad political culture and does not support personal development.

d) Authoritarian and dictatorial regime Bad enforceability of law and human rights is one of the basic characteristics of authoritarian and especially dictatorial regimes. Investments in these countries is high risk.

2. Economical and social causes

a) High indebtedness of developing countries Paying debts and credits (or other fees) lower financial resources which could be used for economical and social development.

b) Unstable prices of resources Oscillating or low market price of natural resources, raw material and agriculture product on global markets creates conditions for social and economical instability and low potential for international or local investment.

c) High unemployment and absence of unemployment benefits

Unemployment creates social and economical instability and contributes to spread of poor suburbs (slums) and increase crime rate.

d) Culture and religion traditions In some regions culture or religion traditions (caste system, women social status) does not allow certain social classes to attend each economical structure (restrictions of performing concrete works)

e) Insufficient health care and appearance of disease Decrease economical performance, cause higher children mortality and thereby (indirectly) higher birth-rate and lower life expectancy.

f) Insufficient education and lack of qualified workers Worse education structure in developing countries creates lower investment potential which is important for economical development.

g) Insufficient transport infrastructure and logistic Unsuitable or insufficient transport infrastructure and logistics creates worse potential for investment and private enterprise.

3. Demografic factors

a) High residential density High residential density causes insufficient access to resources, fast resources depletion and environmental pollution.

b) High birth-rate High birth-rate reduces resources which are necessary for investment of a family (education, health, hygiene, accommodation, business, etc.)

4. Environmental causes

a) Degradation of soil and deforestation Degradation of soil lowers agriculture production and thereby causes economical drop and contribute to migration (urbanization).

b) Environmental pollution Especially water and air pollution – causes higher mortality and illness of a population. This is related to higher costs for medical care and insurance.

c) Climate changes Changes of rain-fall regimes, greater frequency and intensity of tropical hurricanes and longer drought. Consequences are lower agriculture production, economical instability and worse availability of natural resources.

d) Natural disasters Natural disaster can cause death of inhabitants, destroy their homes and places of business. Another consequences could be worse availability of natural resources, economical instability, destroyed infrastructure and worse investment potential.

Poverty consequences

The most common consequences are:

- Bad economical and social situation
- Bad investment potential and education
- High birth-rate
- High crime rate
- Safety instability in small territory or in big regions
- Isolation from society and frustration
- Migration
- Environmental degradation

Fight against poverty

Programme „**Millennium Development Goals**“ was established on the OSN Summit in 2000. There were defined so-called Millennium Development goals – MDG. It concerns eight the most important development goals (agreed by the OSN) which should lead to decrease poverty. First seven goals should be accomplished till 2015 and the eighth should be accomplished till 2020. Goals are considered to be very ambitious and probably will not be accomplished till 2015.

See more: <http://www.osn.cz/zpravodajstvi/zaber/?i=205>

Millennium Development Goals (MDG) are:

1. Decrease number people living in extreme poverty and starvation by half.
2. Basic education for all.
3. Enforcement of gender equality.
4. Decrease child mortality by two-thirds.
5. Decrease maternity mortality by two-thirds.
6. Restriction of HIV/AIDS, tuberculosis and malaria spread.
7. Secure sustainable environment.
8. Strengthen world partnership in development, help, trade and debt relief.

See more: <http://data.un.org/Explorer.aspx?d=MDG>

Major assumption for fight against poverty:

Effective policy- governments of developing countries has to invest in support of employment: create new job opportunities, unemployment benefits (which secures basic needs) for unemployed. Developing countries must improve law enforcement, empower respect to human rights, restrict corruption, create effective institutions and conditions for economical development and income of foreign investment.

Direct foreign investment- Private foreign investment brings into developing countries profit and creates new business opportunities, even in regions where would be high unemployment without these investment.

Global trade— trading barriers and financial aids (especially for agriculture products) in rich countries should be abolished, so the developing countries could enter markets of advanced countries. Trading barriers must abolish developing countries between each other.

Increase official development help to 0,7 % HND – On the OSN conference in Monterrey in 2002 advanced countries agreed to increase development help to 0,7 % HND.

Debt relief – Some developing countries spend on paying debt same amount of money as they get because of development co-operation. In situations like that developing countries do not have enough money to lead politics and actively decrease poverty.

Other possible ways of fight against poverty

Humanitarian organizations

Development help

Poverty as macro-economical issue

Poverty is an important macro-economical issue which revived development co-operation and help which was wasting away in 90's because of „tired of help“ It is important to set conditions leading to long-lasting growth of incomes per person with the help of:

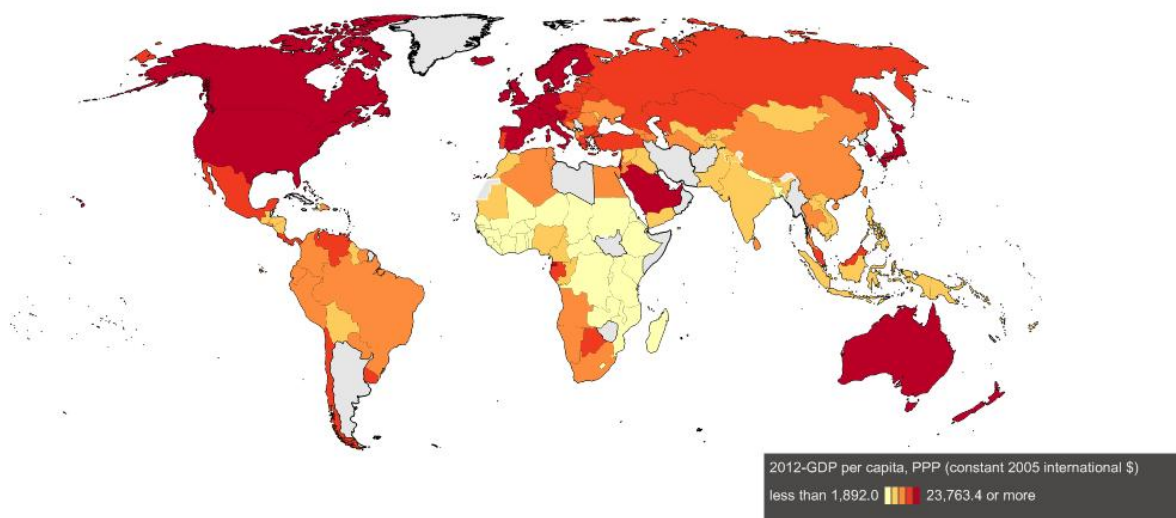
- economical stability,
- establishing institutions,
- structural reformation,
- financial transactions.

The most poor regions of the world

Africa

Asia

South America



<http://data.worldbank.org/indicator/SI.POV.2DAY/countries?display=map>

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