Poverty – a major economical problem

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Abstract: *Poverty is the state for the majority of the world's people and nations. Yet there is plenty of food in the world for everyone. The problem is that hungry people are trapped in severe poverty. They lack the money to buy enough food to nourish them. Being constantly malnourished, they become weaker and often sick. This makes them increasingly less able to work, which then makes them even poorer and hungrier. This downward spiral often continues until death for them and their families.*

Why is this? How is to blame? Poor people for their own predicament? Have they been lazy, made poor decisions, and been solely responsible for their plight? What about their governments? Have they pursued policies that actually harm successful development? Such causes of poverty and inequality are no doubt real. But deeper and more global causes of poverty are often less discussed. This article explores various poverty problems in more depth.

Key words: poverty, states, economy, crisis, nations

A major cause of poverty

Cutbacks in health, education and other vital social services around the world have resulted from structural adjustment policies prescribed by the International Monetary Fund (IMF) and the World Bank as conditions for loans and repayment. In addition, developing nation governments are required to open their economies to compete with each other and with more powerful and established industrialized nations. To attract investment, poor countries enter a spiraling race to the bottom to see who can provide lower standards, reduced wages and cheaper resources. This has increased poverty and inequality for most people. It also forms a backbone to what we today call globalization. As a result, it maintains the historic unequal rules of trade

One of the many things that the powerful nations (through the IMF, World Bank, etc.) prescribe is that the developing nation should open up to allow more imports in and export more of their commodities. However, this is precisely what contributes to poverty and dependency.

The impact of these preconditions on poorer countries can be devastating. Factors such as the following lead to further misery for the developing nations and keep them dependent on developed nations:

- **Poor countries must export more** in order to raise enough money to pay off their debts in a timely manner.
- Because there are so many nations being asked or forced into the global market place—before they are economically and socially stable and ready—and told to concentrate on similar cash crops and commodities as others, the situation resembles a large-scale **price war.**
- Then, **the resources from the poorer regions become even cheaper,** which favors consumers in the West.
- Governments then need to **increase exports** just to keep their currencies stable (which may not be sustainable, either) and earn foreign exchange with which to help pay off debts.
- Governments therefore must:
  - spend less
  - reduce consumption
  - remove or decrease financial regulations
  - and so on.
- Over time then:
  - the value of labor **decreases**
  - capital flows become more **volatile**
  - a spiraling race to the bottom then begins, which generates
  - social unrest, which in turn leads to "IMF riots" and protests around the world
- These nations are then told to peg their currencies to the dollar. But keeping the exchange rate stable is costly due to measures such as increased interest rates.
- Investors obviously concerned about their assets and interests can then pull out very easily if things get tough.

As seen above as well, one of the effects of structural adjustment is that developing countries must increase their exports. Usually commodities and raw materials are exported. But as Smith noted above, poor countries lose out when they

- export commodities (which are cheaper than finished products)
- are denied or effectively blocked from industrial capital and real technology transfer, and
- import finished products (which are more expensive due to the added labor to make the product from those commodities and other resources)

This leads to less circulation of money in their own economy and a smaller multiplier effect. Yet, this is not new. Historically this has been a partial reason for dependent economies and poor nations. This was also the role enforced upon former countries under imperial or colonial rule. Those same third world countries find themselves in a similar situation

Exporting commodities and resources is seen as favorable to help earn foreign exchange with which to pay off debts and keep currencies stable. However, partly due to the price war scenario mentioned above, commodity prices have also dropped. Furthermore, reliance on just a few commodities makes countries even more vulnerable to global market conditions and other political and economic influences. Poverty is more than simple economic issues; it is also an ideological construct.

What means to be poor?
Poverty around the world.

Third World countries are often described as "developing" while the First World, industrialized nations are often "developed". What does it mean to describe a nation as "developing"? A lack of material wealth does not necessarily mean that one is deprived. A strong economy in a developed nation doesn't mean much when a significant percentage (even a majority) of the population is struggling to survive.

Successful development can imply many things, such as (though not limited to):

- An improvement in living standards and access to all basic needs such that a person has enough food, water, shelter, clothing, health, education, etc;
- A stable political, social and economic environment, with associated political, social and economic freedoms, such as (though not limited to) equitable ownership of land and property;
- The ability to make free and informed choices that are not coerced;
- Be able to participate in a democratic environment with the ability to have a say in one's own future;
- To have the full potential for what the United Nations calls Human

The Overseas Development Institute (ODI) describes poverty reduction as a twin function of

1. The rate of growth, and
2. Changes in income distribution.

The ODI also adds that as well as increased growth, additional key factors to reducing poverty will be:

- **T he reduction in inequality**
- **T he reduction in income differences**

A few places around the world do see increasing rates of growth in a positive sense. But globally, there is also a negative change in income distribution. The reality unfortunately is that the gap between the rich and poor is widening. For example:

- About 0.13% of the world's population controlled 25% of the world's assets in 2004.
- 20% of the world's population consumes 86% of the world's goods while 80% of humanity gets just the remainder 14%.

Today, poverty is no more then an economical problem it is also an ideological construct. A lot of people die every day and we have to do something to stop this crisis. We, the government, we all can do something to help from the economical side of view the poor states.

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