E.F. Schumacher
Small is
Beautiful
Economics as if
People Mattered

Chapter 11
The Third World - Development
A Lonergan Institute Seminar
St Anselm's Abbey

# Discussion: What Causes Poverty?



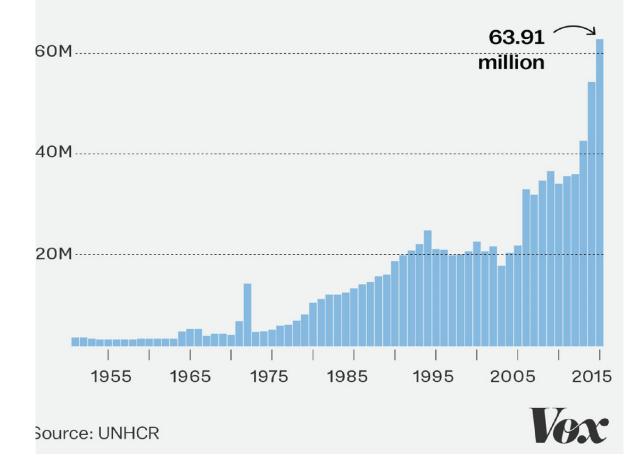
Homeless in the United States

- "We think sometimes that poverty is only being hungry, naked and homeless. The poverty of being unwanted, unloved and uncared for is the greatest poverty. We must start in our own homes to remedy this kind of poverty." – Mother Teresa, Missionary and Saint.
- "People...were poor not because they were stupid or lazy.
   They worked all day long, doing complex physical tasks.
   They were poor because the financial institution in the country did not help them widen their economic base." –
   Muhammad Yunus, Author of "Banker to the Poor:
   Micro-Lending and the Battle against World Poverty."
- "The darkest secret of this country, I am afraid, is that too many of its citizens imagine that they belong to a much higher civilization somewhere else. That higher civilization doesn't have to be another country. It can be the past instead—the United States as it was before it was spoiled by immigrants and the enfranchisement of the blacks. This state of mind allows too many of us to lie and cheat and steal from the rest of us, to sell us junk and addictive poisons and corrupting entertainments. What are the rest of us, after all, but sub-human aborigines?" Kurt Vonnegut, Bluebeard

- "A British Government White Paper on Overseas Development some years ago stated the aims of foreign aid as follows: 'To do what lies within our power to help the developing countries to provide their people with the material opportunities for using their talents, of living a full and happy life and steadily improving their lot.' "
- "Two phenomena, in particular, are giving rise to world-wide concern - mass unemployment and mass migration into cities. For two-thirds of mankind, the aim of a 'full and happy life' with steady improvements of their lot, if not actually receding, seems to be as far away as ever."

### The refugee crisis is at historic proportions

Persons of concern, including refugees, asylum seekers, internally displaced persons, and others



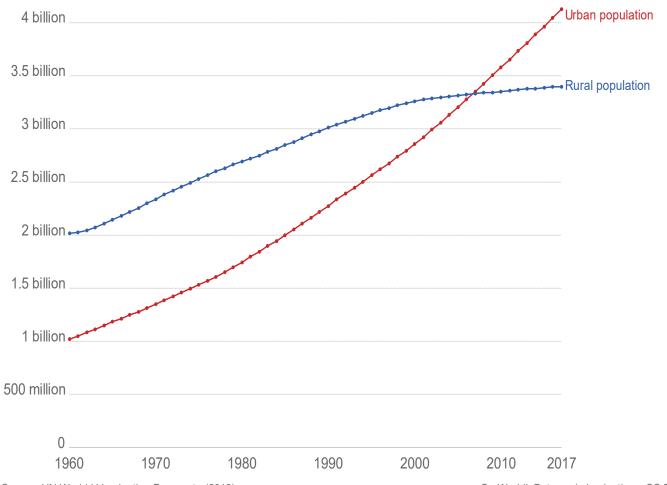
### Moving to Cities

The data is eye-opening. The United Nations in 2009 and the International Organization for Migration in 2015 both estimated that around 3 million people are moving to cities every week. Approximately 54% of people worldwide now live in cities, up from 30% in 1950. Sources estimate this will grow to 2/3 of world population in the next 15-30 years. More than half of urban dwellers live in the 1,022 cities with greater than 500,000 inhabitants. There are currently 29 megacities with populations of over 10 million, up from 2 in 1950 and projected to grow to between 41 and 53 by 2030. Additionally, there are 468 cities with a population of over 1 million, up from 83 in 1950. A Yale research group projects that urban land coverage will expand by 463,000 square miles by 2030 to cover just under 10% of the planet's land, equivalent to 20,000 football fields being paved over every day.

Source: https://graylinegroup.com/urbanization-catalyst-overview/#:~:text=World%20populations%20are%20increasingly%20 moving,population%20density%20than%20ever%20before.&text=The %20United%20Nations%20in%202009,moving%20to%20cities%20every%20week.

#### Number of people living in urban and rural areas, World



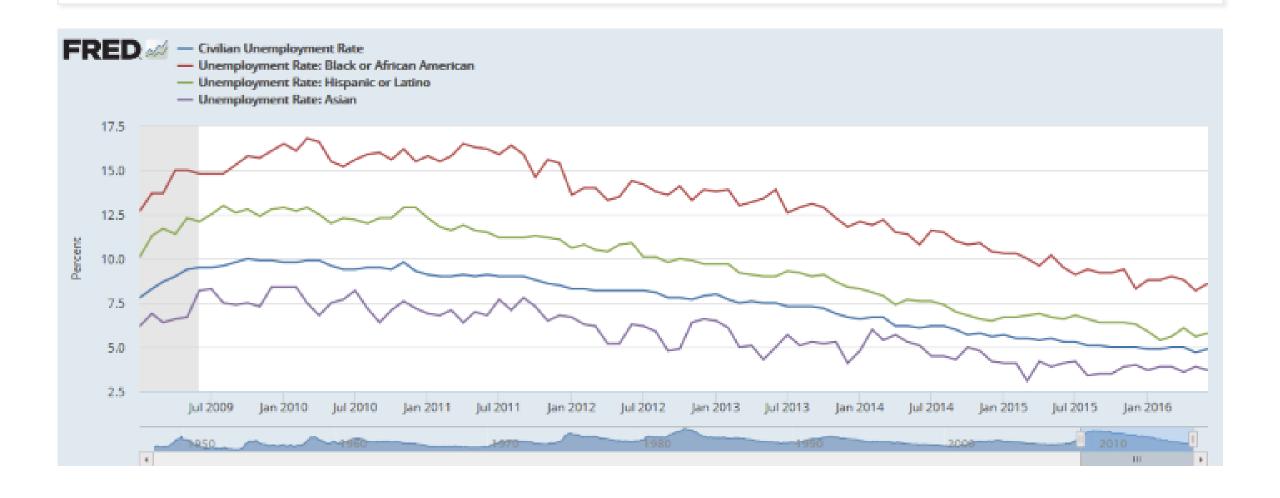


Source: UN World Urbanization Prospects (2018)

OurWorldInData.org/urbanization • CC BY

Note: Urban populations are defined based on the definition of urban areas by national statistical offices.

# Unemployment Rates



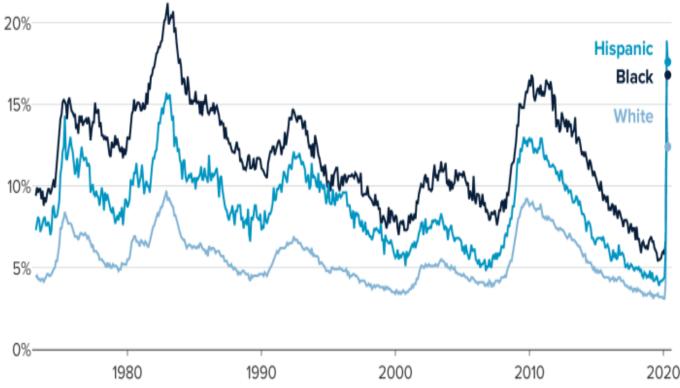
# Structural Unemployment and Coronavirus

- The unemployment rate <u>surprisingly fell to</u>
  <u>13.3%</u> in May from April's record of 14.7%,
  the Labor Department said, which was the
  highest since the Great Depression. While
  unemployment among white workers fell to
  12.4%, unemployment for black
  workers rose to 16.8%, the highest in more
  than a decade and particularly crippling
  because they often have a more fragile safety
  net to rely on.
- The numbers show that black people, along with women and young people, continue to bear the brunt of the economic crisis sparked by the coronavirus pandemic.

Source: USA Today

### Unemployment rate by race and ethnicity

The jobless rate has historically been twice as high for black workers as for white workers



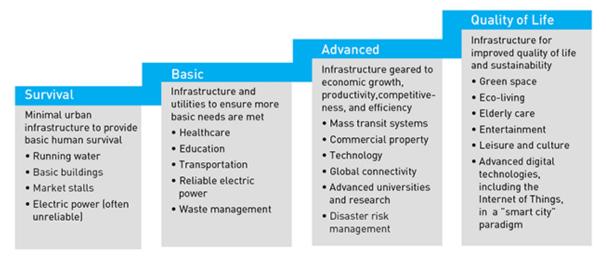
SOURCE: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis. Data is seasonally adjusted and through May 2020.



"Could it be that the relative failure of aid, or at least our disappointment with the effectiveness of aid, has something to do with our materialist philosophy which makes us liable to overlook the most important preconditions of success, which are generally invisible? Or if we do not entirely overlook them, we tend to treat them just as we treat material things - things that can be planned and scheduled and purchased with money according to some all- comprehensive development plan. In other words, we tend to think of development, not in terms of evolution, but in terms of creation."

#### Exhibit 10: Emerging Needs of a City through the Stages of Development

Meeting the needs of a city will require a healthy economy and healthy society, aligned to meet the needs of the citizen. As cities develop, basic needs are met first, then higher-order needs as the expectations of the citizenry increase.



#### Reactive:

Struggling to meet demand, unattractive to live, work, and do business

The city becomes more efficient and competitive

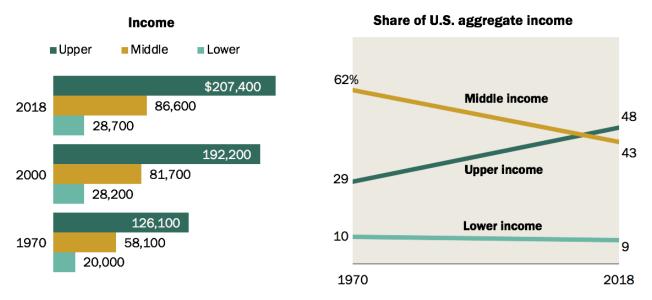
#### Proactive:

Advance planning, a more attractive country to live, work, and do business

- "We may observe in passing that similar tendencies are at work even in some of the richest countries, where they manifest as a trend towards excessive urbanization, towards 'megalopolis', and leave, in the midst of affluence, large pockets of poverty-stricken people, 'drop-outs', unemployed and unemployables. Until recently, the development experts rarely referred to the dual economy and its twin evils of mass unemployment and mass migration into cities."
- "On the contrary, the dual economy, unless consciously counteracted, produces what I have called a 'process of mutual poisoning', whereby successful industrial development in the cities destroys the economic structure of the hinterland, and the hinterland takes its revenge by mass migration into the cities, poisoning them and making them utterly unmanageable."

### The gaps in income between upper-income and middle- and lower-income households are rising, and the share held by middle-income households is falling

Median household income, in 2018 dollars, and share of U.S. aggregate household income, by income tier



Note: Households are assigned to income tiers based on their size-adjusted income. Incomes are scaled to reflect a three-person household. Revisions to the Current Population Survey affect the comparison of income data from 2014 onwards. See Methodology for details. Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements (IPUMS). "Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority"

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# Dual Economy in the United States

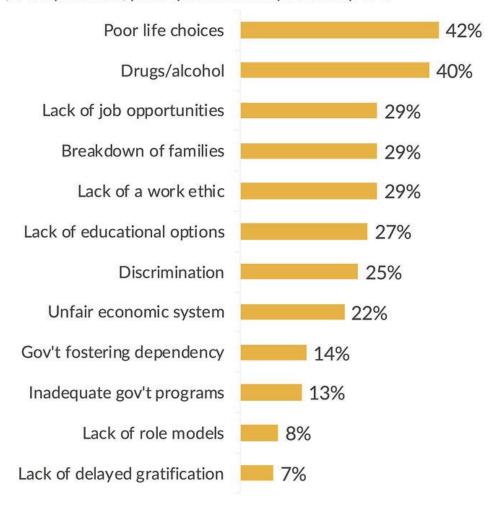
- The "dual economy" in the book's title also represents a bracing reflection of America's class schism. Temin, a leading economic historian, draws the term from the work of Nobel Prize winner W. Arthur Lewis, who in the 1950s applied the model of a dual economy to developing countries. In many of those nations, Lewis contended, there was not a single economy but a two-track economy, with one part containing upwardly-mobile, skilled workers and the other part inhabited by subsistence workers."
- In Temin's terms, updated, America now features what he calls the "FTE sector" people who work in finance, technology, and electronics and "the low-wage sector." Workers in the first sector tend to thrive; workers in the second sector usually struggle.
- "In the [political and economic] turmoil of the '70s and '80s, the unions declined, and the institutions that had been keeping labor going along with rising productivity were destroyed," Temin says. "It's partly [due to] new technology, globalization, and public policy it's all of these things. What it did was disconnect wages from the growth in productivity."
- Where "The Vanishing Middle Class" moves well beyond a discussion of basic economic relations, however, is in Temin's insistence that readers consider the interaction of racial politics and economics. As he puts it in the book, "Race plays an important part in discussions of politics related to inequality in the United States."
- To take one example: Again starting in the 1970s, incarceration policies led to an increasing proportion of African-Americans being jailed. Today, Temin notes, about one in three African-American men will serve jail time, which he calls "a very striking figure. You can see how that would just destroy the fabric of a community." After all, those who become imprisoned see a significant reduction in their ability to obtain healthy incomes over their lifetimes.

Source: <a href="http://news.mit.edu/2017/america-economy-decline-middle-class-0313">http://news.mit.edu/2017/america-economy-decline-middle-class-0313</a>

- "The starting point of all our considerations is poverty, or rather, a degree of poverty which means misery, and degrades and stultifies the human person: and our first task is to recognize and understand the boundaries and limitations which this degree of poverty imposes."
- "Among the causes of poverty, I am sure, the material factors are entirely secondary such things as a lack of natural wealth, or a lack of capital, or an insufficiency of infrastructure. The primary causes of extreme poverty are immaterial, they lie in certain deficiencies in education, organization, and discipline."
- "Development does not start with goods; it starts with people and their education, organization, and discipline."

#### What Americans think causes poverty

Of the following, which three reasons do you think are most responsible for the problem of poverty in this country? Select up to 3.

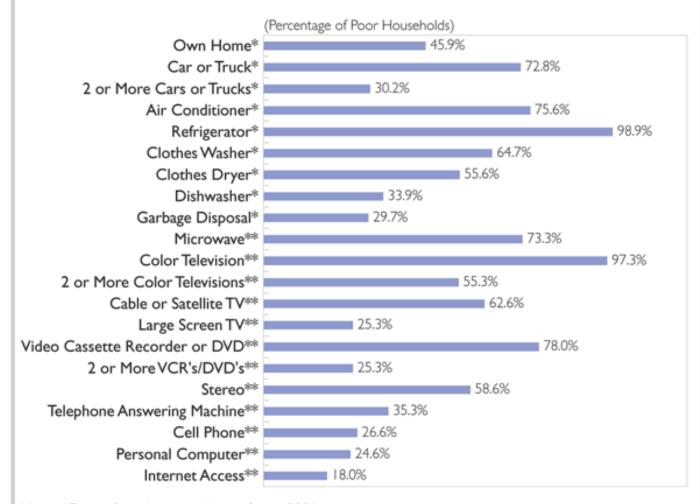


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- "Here, then lies the central problem of development. If the primary causes of poverty are deficiencies in these three respects, then the alleviation of poverty depends primarily on the removal of these deficiencies."
- "The new thinking that is required for aid and development will be different from the old because it will take poverty seriously. It will not go on mechanically, saying: 'What is good for the rich must also be good for the poor.' It will care for people - from a severely practical point of view. Why care for people? Because people are the primary and ultimate source of any wealth whatsoever. If they are left out, if they are pushed around by self-styled experts and high-handed planners, then nothing can ever yield real fruit."

What is poverty in the United States? Why is it important? Do all Americans have a chance to pursue "life, liberty, and the pursuit of happiness?"

#### Ownership of Property and Consumer Goods Among Poor Households



Note: \*Figures from American Housing Survey 2001

\*\* Figures from U.S. Department of Energy, Housing Characteristics 2001

# THE END

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