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Globalisation and the Poor: Poverty Amid Affluence

New UN-HABITAT report concludes that economic globalisation adversely affects the poor in developing countries and indirectly contributes to slum formation

In the great game of globalisation – who wins? Is escalating poverty and the often brutal deconstruction of political systems and communities in the least developed countries worth the potential gain from a minimal trickle of international capital? Are there real opportunities from globalisation that will ultimately benefit all the world and its citizens?

These are some of the key questions raised in UN-HABITAT's *The Challenge of Slums: Global Report on Human Settlements 2003*, released in October 2003.

World trade has grown rapidly in the 1980s and 1990s, but is still dominated by a small group of countries. Contrary to popular belief, the West has not lost manufacturing share. Rather, it is the less developed countries that have lost their share of manufacturing employment and trade, mainly to a small group of countries in Asia.

According to the Report, one of the few direct benefits that slum dwellers receive from globalisation is greater direct access of aid agencies to support local aid NGOs and governments – and therefore better targeting of pro-poor programmes. Increased “expectations of the possible” might also be a benefit of globalisation, in that improved information might make some slum dwellers seek out livelihood options or opportunities that they might not previously have considered. The more skilled or educated workers may be able to find jobs in international firms at advantageous pay rates, but these people are unlikely to be slum dwellers.

The Report's authors argue that these very limited advantages are outweighed by a truly formidable array of disadvantages – so many, in fact, that some national governments might be excused for not wishing to participate at all in globalisation, if they genuinely have the welfare of the urban poor at heart. The major disadvantage is the wholesale loss of formal sector job opportunities in both the public sector and the private import-substitution industries. The remaining formal sector jobs are often insecure and paid at subsistence wages. Another significant disadvantage is that, as those who are able to access global opportunities increase their incomes, economic inequality grows. This means that the prime resources of the city are increasingly appropriated by the relatively affluent. It also leads to inflation as the “new rich” are able to pay more for a range of key goods, especially land. This inflationary tendency is exacerbated by the removal of price ceilings on subsistence goods, and by the increased utility charges that accompany privatisation.

The poor are marginalised in the worst parts of the city – the slums. The ability of national governments to act on their behalf is curtailed, while local governments in poor areas have no tax base with which to assist. Moreover, social cohesion is damaged through a bewildering array of new ideas, images and international norms, and through the general precariousness of existence, all of which undermine the traditional bases of authority.

“Trickle-down” theory has usually been advanced by pro-growth theorists as a means by which the incomes of the working poor will eventually improve. However, the UN-HABITAT Report notes that there is little evidence to support this idea and the consensus now is that any trickle-down is confined to a relatively small part of society. Most aid agencies are now seeking to address the global problem of poverty directly through a variety of programmes and interventions.

Overall, it would seem better for developing countries to participate in global opportunities than to isolate themselves in a ‘splendid’ poverty, as a few countries have done. Alternatively, countries might do well to emulate the examples of developed countries, which have been very choosy about allowing projects that have little or no local economic payoffs or tax benefits, or which do not benefit their citizens for other reasons. This requires a fair amount of sophistication on the part of governments – a level of sophistication rarely found in local government.

Looking ahead

According to the UN-HABITAT Report, the world appears to have entered a new era of laissez-faire globalisation, with everything that this implies. In particular, exposure to global economic booms and busts ratchets up inequality and distributes new wealth in increasingly uneven ways. In the past, this system was responsible for creating the famous slum areas of major cities in today's developed world, and it is very likely to do the same again in developing countries.

The long global economic growth period that occurred from 1945 to 1973 was typified by declining inequality and improving equity. The situation then reversed: income inequality and poverty increased without respite during the recession years from 1978 to 1993, and real incomes actually fell for the bottom income groups in most countries and the world as a whole – with resulting increases in poverty. Underlying this trend, the UN-HABITAT Report points out, is the “withdrawal of the State” and the cyclical nature of capitalism, an increased demand for skilled labour (relative to unskilled workers), and the effects of globalisation – all of which are, in fact, interconnected.

In the late 1990s, economic conditions dramatically improved in most of the world's highly industrialized countries. The problem was that much of the increased wealth of the 1990s went to the very highest income groups, while low income groups at best stabilised their position or continued to slide backwards, a trend that had begun in the mid-1970s. The reason for this is really quite simple – in situations where labour has little bargaining power and/or governments do not actively seek to redistribute wealth, the most economically powerful groups will always take the lion's share of new wealth.

However, according to the Report, it is not globalisation, per se, that has caused countries and cities to abandon policies aimed at redistributing wealth to the benefit of the majority of their citizens. Rather, it is the perception of governments that their countries must be competitive in the world economy that has led to this policy shift. The fear of being overtaken by low-cost Asian producers led many countries to deregulate their labour markets and lower social spending. In fact, the data show that the trade position of the developed countries strengthened, if anything, and Asia's gain was at the expense of the rest of the developing world.

Thus, the rapid growth of inequality, poverty and of slums has not been due to vast impersonal forces inherent in globalisation, but rather to specific decisions by governments following economic policies that are guaranteed to have these results. Many national governments have abdicated their responsibilities to their citizens to promote fairness, redistribution, social justice and stability, all in favour of a chimera of competitiveness and wealth for the few. According to the Report, international development organisations have also contributed to the growth in inequality and slum formation by promoting market-oriented solutions in the past – solutions that have failed to deliver on their promise almost everywhere they have been applied. In the face of these failures, most of those organisations that have a mandate for aid have now adopted poverty reduction as their imperative.

The UN-HABITAT Report asserts that, if a boom decade like the 1990s leaves the world with a gnawing feeling of insecurity and a lack of social justice, then a bust decade will be many times worse. The cities most affected have been and will be located in the half dozen or so countries that have ‘received an invitation’ to join the developed world, because they are exposed to the full force of global economic cycles. The fate of countries that are largely left out of this “international gentrification” remains uncertain, but the prospects are not encouraging.

Responsibility for meeting the challenges of globalisation resides, as it has always, with countries and city governments to decide what will benefit their people most. They must join in partnership with their citizens and with enlightened donors, and pursue strategies that will enable favourable outcomes to be realized. It is up to countries to articulate social goals and insist on achieving them – recognizing the realities of a global economy, but ultimately not being enslaved by it.

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