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Radically Reducing World Poverty: What Role for Europeans?

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Lack of food to feed one's children, watching them die due to illness that could have been prevented with a penny-worth vaccination, no access to drinking water, no shelter but a cardboard house... Ordinary Europeans cannot begin to imagine what real poverty means. Undeniably, there are thousands of people in Europe, who cannot afford proper housing or nutrition for their children. Nevertheless, poverty understood as "the involuntary lack of sufficient resources to provide or exchange for basic necessities – food, shelter, health care, clothing, education, opportunities to work and to develop the human spirit"<sup>1</sup> is a relatively uncommon phenomenon in Europe but widespread in developing countries. Hence, while talking about reducing world poverty, the latter group has to be taken into consideration first.

In order to show the scope of the problem, it is worth to present several figures:

- almost 800 million people in developing countries and over 30 million in countries in transition are malnourished (data from 2000),<sup>2</sup>
- some 1,15 billion people live on less than 1\$ a day (in 1999),<sup>3</sup>
- there are 854 million illiterate adults out of which 543 million are women (in 2000),<sup>4</sup>
- 968 million people do not have access to improved water sources (in 1998).<sup>5</sup>

There are hundreds of other figures showing the misery of billions of people in the world. However, this paper is not intended to collect the most striking statistics, but to suggest solutions for eradicating poverty and for the role of Europeans in the process of global poverty reduction.

The Millennium Summit, held at the United Nations Headquarters from 6 to 8 September 2000 gave the framework for international effort to combat poverty. Millennium Development Goals cover most of the important issues concerning the needs of the societies of developing countries, i.e. extreme poverty, hunger, education, gender equality, child mortality, maternal health, HIV/AIDS, environmental sustainability and global partnership. However, they lack political elements (to name just two: military conflict prevention and democratization) and economic concerns are not highlighted enough (ex. tariffs reduction or cutting down agricultural subsidies). Nevertheless, having as solid basis for global cooperation as the Millennium Development Goals, it would be unwise to build the idea for the role of Europeans in the battle against world poverty on any other grounds.

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<sup>1</sup> Snarr, M. T. and Snarr, D. N (eds.), *Introducing Global Issues*, Lynne Rienner Publishers, Boulder, Colorado, 1998, p.118

<sup>2</sup> *The State of Food Insecurity in the World 2002*, Food and Agriculture Organization, Viale delle Terme di Caracalla, Rome, Italy, 2002, Tables, <http://www.fao.org/docrep/005/y7352e/y7352e07.htm#t>

<sup>3</sup> *Human Development Report 2002. Deepening democracy in a fragmented world*, United Nations Development Programme, Oxford University Press, Oxford, New York, 2002, p. 18, <http://hdr.undp.org/reports/global/2002/en/pdf/complete.pdf>

<sup>4</sup> *What is Human Development?*, Human Development Report Office, <http://hdr.undp.org/hd/default.cfm>

<sup>5</sup> *ibidem*

Hence, what can European governments, companies and societies do in order to promote the realization of the Millennium Development Goals? The problem has to be analyzed in both long and short-term perspectives.

First, it is necessary to offer developing countries possibilities for economic growth. It is not only humanitarian aid but also, primarily long-term GDP growth that can significantly reduce their poverty level and turn these states around in order that they are capable of providing satisfactory services to their citizens. Consequently, as far as the long-term is concerned, economic growth is the core issue in achieving Millennium Development Goals. Therefore, clear analysis of the **ways to promote GDP growth in developing countries** and **the role of Europeans in this process** will be the most important subject of this paper.

Second, policy makers cannot forget about short-term. Especially in the case of developing countries it is impossible to focus only on giving them good pieces of advice about legal and economic institutions influencing the pace of GDP growth. Humanitarian and development aid is necessary and that is why the second set of questions this paper will try to answer are **how to increase foreign aid funding, how to allocate collected means the most effectively** and finally – **what role can Europe play in developing humanitarian aid for developing countries?**

Both long and short-term concerns require an identical sequence of analysis. Aid effectiveness, as a primary concern should be reflected on first. Then, other, non-financial methods of reducing poverty have to be discussed. Finally, ways to encourage rich countries to support developing countries more determinedly need to be presented. Afterwards, having suggested general solutions in particular fields, it will be easy to fit Europe in the scheme. This order will be reflected in this paper.

Having covered aid effectiveness both in reference to humanitarian and development aid and methods to enhance generosity among rich countries (proposals concerning debt relief policies will be included in the section on increasing aid), the core issue will be discussed, namely fair trade. While the first and the second parts of analysis seem to be rather conservative, avoiding too radical conceptions, the latter is a little idealistic. However, it is based on the assumption that if the idea is right and profitable to all parties, even politicians may eventually agree to it.

### **Aid Effectiveness**

Economic and humanitarian aspects should be developed simultaneously and in coordination with one another in order to grant synergy effect. Nevertheless, these are matters far enough from one another to be discussed under separate headings. It seems that solutions concerning humanitarian aid should be analyzed first, because in some places they have to be implemented in order to enable putting long term development projects in action.

### *Humanitarian Aid*

In order to talk reasonably about possible solutions for increasing foreign aid effectiveness and to decide upon which of them are the most efficient, it is essential to define criteria for evaluating them. It seems that the most important conditions a solution has to fulfill are: first, generating progress on Millennium Development Goals with a primary focus on combating extreme poverty, second, inducing initiative among local people and third, coherence with long term development plans.

There are many analyses written on how to make foreign aid more effective. Among others, following solutions are advocated:

- untying aid,
- channeling aid to the poorest countries,
- fastening providing emergency aid in case of humanitarian disasters such as wars, droughts, floods, earthquakes and famine,
- monitoring impact of granted aid,<sup>6</sup>
- clear and total separation between humanitarian aid and military aid,
- establishment of an international committee responsible for promoting and controlling humanitarian aid in the world,
- “the greatest possible transparency concerning humanitarian aid funds and the way these are spent on ground”,<sup>7</sup>
- increased cooperation between developing countries, international institutions and developed countries,
- focusing on combating extreme poverty (famine, chronic undernourishment, dying of lack of basic healthcare, quasi-slave children work) and ensuring elementary education for all children<sup>8</sup>
- “focus [...] on the areas of greatest humanitarian suffering and on forgotten crises”,<sup>9</sup>
- link up “work on development programs, humanitarian response, lobbying for policy changes at national and global level”<sup>10</sup> and many others.

The only idea from mentioned above that does not appear justified is the one talking about establishment of a new committee dealing with humanitarian aid. There are enough institutions channeling humanitarian aid to develop competition among them and therefore coercing them to

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<sup>6</sup> all of the above ideas come from *Policy & Research*, ActionAid website, <http://www.actionaid.org/policyandresearch/policyandresearch.shtml>;

<sup>7</sup> this one and two above ideas come from *Resolution*, Youth Solidarity Day, Brussels, 20<sup>th</sup> Jan 2004, [http://www.europa.eu.int/comm/echo/pdf\\_files/2004\\_ep/resolution\\_en.pdf](http://www.europa.eu.int/comm/echo/pdf_files/2004_ep/resolution_en.pdf)

<sup>8</sup> both ideas come from: Sulmicka M., *Ubóstwo we współczesnym świecie*, SGH, Warszawa, 2001, p.6-9

<sup>9</sup> *ECHO to spend €490 million on humanitarian aid in 2004*, Humanitarian Aid Office of the European Commission website, [http://www.europa.eu.int/comm/echo/whatsnew/ip\\_2004\\_02\\_10\\_en.htm](http://www.europa.eu.int/comm/echo/whatsnew/ip_2004_02_10_en.htm)

<sup>10</sup> *About Us*, Oxfam International website, <http://www.oxfam.org/eng/about.htm>

conduct increasingly effective, aim-directed actions. Creating another one would mean mainly producing additional costs. On the other hand, this idea is related to the crucial issue in directing assistance, namely need for tactical approach to aid distribution.

Aid coming from hundreds or maybe thousands of institutions makes an undeniable proof of good will in the world. Nevertheless, programs designed and executed without any coordination can only accidentally happen to harmonize. Therefore, there is a need for much greater cooperation among institutions distributing aid. Collaboration in this field can be enhanced through issuing a prioritized catalog of programs that should be executed. This list should be consulted with all important financial and charity institutions dealing with aid for poor countries and with developing countries' governments and NGOs.

There are several pros for issuing such a file:

- i. Donors, who generally are not conscious which program could have the strongest positive impact, frequently choose not the most effective one. Having a possibility to validate their feelings about it against the set of tasks worked out by a recognized institution, they might switch to a program, where their donations would be utilized more efficiently.
- ii. Institutions taking part in programs (or rather processes) listed in the catalog would have an important incentive to synchronize their actions in order to improve fundraising capacity. Furthermore, coordination will make strategic approach to the issue possible. This should lead to more efficient spending, making results more visible and therefore stimulating additional rise in donations.
- iii. Countries willing to obtain aid would also have increased motivation for cooperation as projects concerning bigger population would be placed higher on the list. Besides, increased collaboration among states on economic grounds would decrease risk of armed conflict.
- iv. The list based on the criteria mentioned above, counting in number of people taken care of and total cost of an action might, if well-publicized, significantly influence aid channeling. And if worked out by a group of fine specialists, it should allocate aid much more productively than it is directed presently.
- v. The list would not be sort of "central plan" nor a closed list excluding other ideas for helping the poor. It should be designed as an advice what to sponsor if one is willing to donate money the most effectively. Despite its non-coercive character, the catalog of

humanitarian processes needing sponsorship should be an influential tool to channel aid more efficiently.

An example showing the way, how the catalog should be constructed is shown in the table below. Obviously, it is neither final nor complete nor are the numbers exact nor are the weights in “impact” section thoroughly pondered upon. The table is presented only to show the mechanism, how the list should be developed.

Priority	Program/process	Actions	Impact (0-10 scale)			Cost (x1000 \$)	Number of People Supported (thousands)	Effectiveness Index*	Institutions Involved
			MDG (0,7)	Local Initiative (0,2)	Coherence With Development Plans (0,1)				
...	...	...	...	...	...	...	...	...	...
5	<b>Fresh Water for Africa</b>	water transport, detection of underground water reserves, building wells, etc.	8	4	4	500000	600000	0,82	International Water Management Institute, Water and Sanitation Program, United Nations Environment Programme
...	...	...	...	...	...	...	...	...	...
13	<b>Combating Ethiopia Food Shortage</b>	delivering and distribution of food	8	1	3	30000	11000	0,22	ActionAid, United Nations World Food Programme
...	...	...	...	...	...	...	...	...	...
106	<b>Environmental Education in Cambodia</b>	holding workshops, advising on self-employment opportunities, etc.	2	5	6	5000	40000	2,40	Oxfam International, Australian Association for Environmental Education, FAO
...	...	...	...	...	...	...	...	...	...

**Table 1. Foreign Aid Priorities Table – Hypothetical Order**

\* effectiveness index’s counting method is designed only for the purpose of this paper – it is to show that there are possibilities of building mathematical indicator showing the effectiveness of each dollar spent for a program. Obviously, this indicator should also take into account many other variables (ex. duration of the program), but again – it is just a rigid idea to be worked on by professionals. Here, it is counted as follows:  $(0,7[\text{MDG score}] + 0,2[\text{local initiative score}] + 0,1[\text{coherence with long-term programs}]) \times [\text{number of people supported}] / [\text{money spent in thousand \$}]$ .

After important improvements, this index might play an important role in putting programs in order, however it should not be decisive, because it is impossible to take all possible situations into account while working out the way to count it.

In sum, actions fundamental to increase aid effectiveness should be focused on fighting extreme poverty, generate initiative and entrepreneurship among locals and synchronize with long-term plans. All of the above should be done in cooperation among financial institutions, charity organizations, developed and developing countries.

Consequently, the European role in the process of increasing efficiency of aid allocation should be based on the principles listed above. The most important actions to be taken by the Europeans are:

1. The EU institutions such as EuropeAid or/and ECHO should build a catalog of some 200 most important issues concerning humanitarian aid in the world. The EU is a good institution to prepare such a catalog not only because it undeniably possesses the intellectual and organizational capacity to perform such an action, but also because of its will to be considered the prime soft power empire in the world. Obviously, foreign aid handed out by the EU should correspond with the list's hierarchy.
2. The EU and its Member States should commit themselves to following all the best practices of providing foreign aid such as transparency, untying aid, separating it from military aid, providing it the quickest possible to crisis places and monitoring aid effectiveness. Besides, the aid from Europe should be distributed in the biggest coordination possible with other institutions interested in solving a concerned issue. Needless to add, that time constraints and other factors such as lack of will to cooperate from the potential partner have to be taken into consideration. Efforts for coordination or for complying with all the rules possible cannot decrease level of assistance nor slow down the pace of its delivery.
3. Being positive about clarity of the European foreign aid policies, the EU will have title and enlarged possibilities of influencing other countries, such as the US and Japan (two biggest donors of foreign aid in the world in absolute values) to follow the same rules. Importantly, the loudness of the European voice will increase relatively to the raise in unity of the European Union on the international political scene.

#### *Development Aid*

Development aid requires different set of criteria for evaluation than humanitarian aid, because its role is different. Economic growth, the most obvious indicator of improvement, cannot be the only measure of development aid effectiveness while talking about reducing the level of poverty, since it is possible that GDP grows despite worsened or unchanged situation of the poor (ex. Latin America in the second half of the 20<sup>th</sup> century). However, it has to remain the most important element of the analysis, due to the fact that without GDP growth, diminishing the level of poverty is impossible. Therefore, while evaluating development aid usefulness, the most important factors are: impact on

GDP growth, raising the standard of life of the poor in both long and short term and decreasing the level of dependency on foreign support.

There are two most widely accepted attitudes towards promoting growth in developing countries: enabling fair competition on international market and supporting development programs within poor countries. There is a need for both kinds of assistance, because the effectiveness of any of mentioned types of aid strongly depends on the realization of the other. Freeing the trade is the one complying more comprehensively with the criteria for development aid listed in the previous paragraph. However, due to the key importance of fair trade in reducing world poverty, it will be discussed under separate heading.

The most important issues in raising the efficiency of development aid are: what type of development programs to sponsor, what should be the form of the assistance and which countries should be recipients of this support. All three concerns are quite well studied. Conclusions prevailing in most analyses are similar, so there is not too much space for invention.

First, development programs should focus on investments in infrastructure and in human capital as these are domains, where externalities are the biggest. In both cases individual or local improvements result in significant positive effects to the rest of society.

Thanks to universal education, not only do the poor have the possibility of entering the Virtuous Circle (increased education → increased productivity & reduced birthrates → fewer children & higher incomes → increased education → ...) <sup>11</sup>, but also their individual well-being connected with finding better-paid job improves global efficiency of country's economy. Universal education also increases the chances for appearance of educated business and political elites, understanding needs of the rest of the society.

In order to make investments in education the most effective, it is necessary to focus first on ensuring universal primary education, then broadening the range of youths encompassed with secondary education and focus on business and technical higher education. Importantly, it is not enough to focus on statistics talking about the average length of education or percentage of literate adults; the quality of education should be taken care of on each stage of educational system. It is also important to ensure conditions for educated professionals to work in their home countries, to minimize brain drain. <sup>12</sup>

Insufficient infrastructure in transportation, communication, water supply, sewage systems etc. is believed to be one of the principal causes of poverty. Direct effects of investments in these domains include improvement in standard of peoples' lives and employment of inhabitants of less developed

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<sup>11</sup> Snarr, M. T. and Snarr, D. N (eds.), *op. cit.*, p. 130

<sup>12</sup> Sulmicka M., *op. cit.*, p.190-194

regions. But indirect results seem to be as important: private capital usually comes together with government spending multiplying the economic effect of investments while intensified contacts among citizens ensure better access to information and increase overall productivity.

External effects of investments in education and infrastructure explain interference in market mechanism and huge needs of developing countries in this field together with little domestic budgetary possibilities clarify the necessity of foreign assistance.

Second method of increasing efficiency of development aid is improving methods of granting them. It is clear that not all expenditures directed at development or humanitarian aid get to the place, where they were supposed to. Corruption, costs of allocating aid (communication, services, monitoring effectiveness etc.) and other problems with donating money led D. Begg to using the parallel between transfers and carrying water in the leaking bucket. "Some water will make it to the destination some will leak out on the way. Whether we should engage in such an undertaking depend on how fast water leaks out and how urgent are needs. Meanwhile, we should rather look for a better bucket."<sup>13</sup> Although many economists argue that liberalized trade is the best "bucket", since a radical fall in subsidies and tariffs is not expected, it is necessary to "clog up the wholes", i.e. strive to make the aid go where it is originally directed. Among solutions are: increasing the level of beneficiary participation, supporting knowledge creation, engaging civil society, focusing on long-term reforms, cooperation among donors etc.<sup>14</sup>

Choosing right countries for addressees of assistance is the third way of raising effectiveness of development aid. David Dollar's and Lant Pritchett's analysis entitled "Rethinking the Money and Ideas of Aid" summarizes the findings of a multi-year World Bank research program on aid effectiveness. Authors point out that economic assistance is effective only if the beneficiary countries have good economic institutions and policies. In this case aid really helps both to increase GDP and to reduce poverty (for an aid accounting for each 1% of GDP, economic output grows by 0,5% and poverty is reduced by 1%). Assistance directed to countries advancing poor economic policies have either no or negative impact on GDP growth. Therefore, aid should be driven out of countries with weak institutions and mediocre policies and redirected to those, whose policies are sound. According to Dollar and Pritchett, "a \$ 10 billion increase in aid would lift 25 million people per year out of

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<sup>13</sup> Begg D. and others, *op. cit.*, p. 480-481

<sup>14</sup> Dollar D., Pritchett L., *Rethinking the Money and Ideas of Aid*, New York, World Bank and Oxford University Press. (30-page long abstract of their book entitled "Assessing Aid—What Works, What Doesn't, and Why"), p.24-26, <http://www.worldbank.org/research/aid/pdfs/overview.pdf>

poverty – if it favors countries with sound management. By contrast, an across-the-board increase would lift only 7 million out of poverty.”<sup>15</sup>

Role for Europeans does not differ significantly from the role of other developed countries as far as raising the effectiveness of development aid is concerned. It is enough to read comprehensive analysis and follow the suggestions of experts. To repeat conclusions, European aid should be directed mostly to countries that conduct sound economic policies rather for long-term projects in education and physical infrastructure, preferably in cooperation with financial institutions, other countries and beneficiaries. In addition, minimal level of waste has to be ensured.

### **Increasing the Volume of Aid**

Long-term economic growth is the only way for developing countries to escape from the misery of dependency on foreign aid. However, put in present situation, i.e. indebted, having almost no capital accumulated, huge budget deficits and restricted access to international market (or at least set against subsidized competitors), developing countries seem unable to follow their way out of poverty without assistance from rich countries.

In spite of that, still rich countries' attitude towards world poverty can be described as a kind of disregard. Developed countries are the most protectionist in areas, where poor countries are the most competitive (agriculture, clothing, shoemaking and other low-tech products), subsidize their agriculture (while 97% of world farmers live in developing countries) and lower poor countries' debts only to the level of potential pay off abilities (debt relieves are rather acknowledging the actual situation than aid in real terms).<sup>16</sup>

Fortunately, in the second half of the 20<sup>th</sup> century poverty became an issue of global interest and developed countries and international institutions seem increasingly responsible for the misery of the rest of the world.

As stated above, talking about raising the level of foreign aid can be done only after having discussed aid effectiveness earlier. Nonetheless, even if channeled more effectively aid at present level is not sufficient to realize Millennium Development Goals. The World Bank estimates that to achieve these ends, developed countries need to contribute an additional \$40bn to \$60bn a year - above current contributions of \$57bn.<sup>17</sup>

Before analyzing methods of enhancing generosity among developed countries, it is worth to take a look at the table presenting overseas aid as a percentage of donor countries gross national income (in

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<sup>15</sup> *ibidem*

<sup>16</sup> Sulmicka M., *op.cit.*, p.217-230

<sup>17</sup> *World Bank calls for doubling aid*, BBC News, 20 February, 2002, <http://news.bbc.co.uk/1/hi/business/1832933.stm>

2001). As it can be seen on the Table 2., most of the industrialized countries spend on Official Development Assistance (ODA) far below the target of 0.7% recommended in the 1974 UN Resolution on the New International Economic Order. Actually, developed countries have fallen to an all-time low of 0.22 % of their GDP (on weighted average).<sup>18</sup>

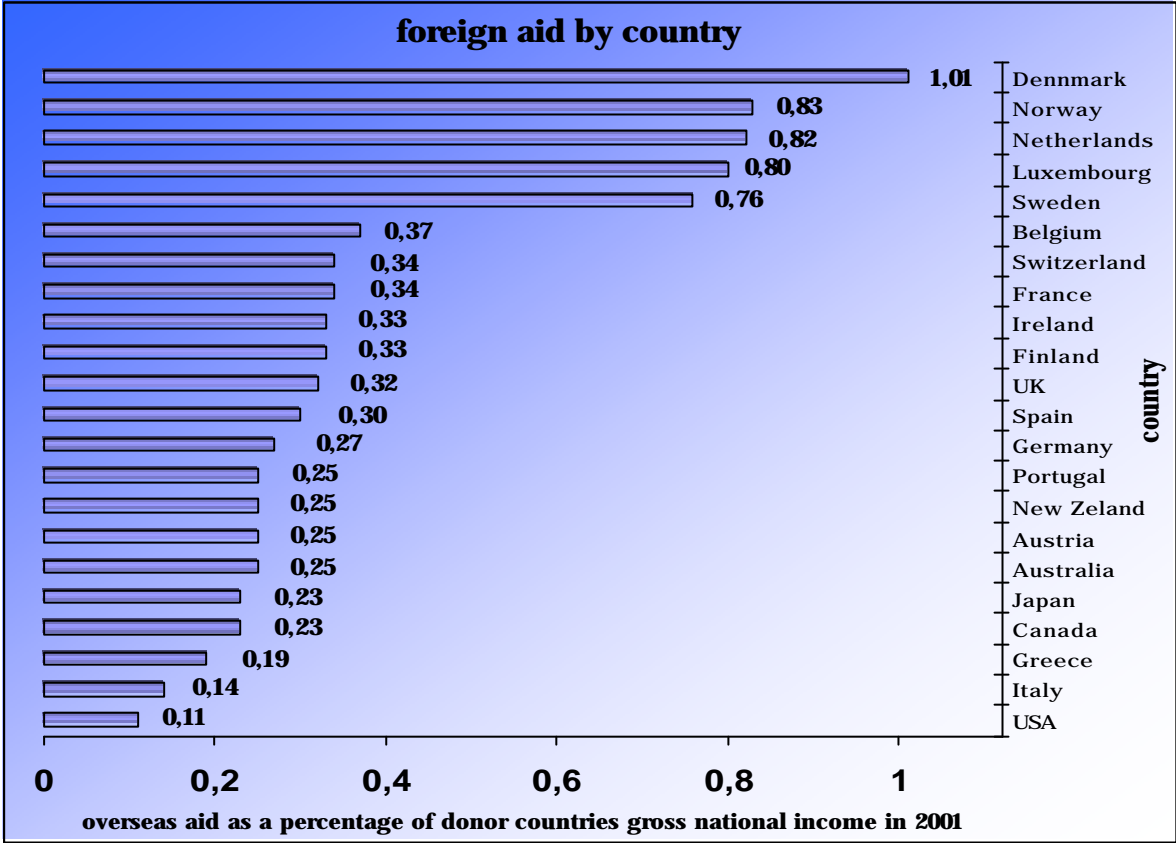


Table 2. Overseas Aid as a Percentage of Donor Countries Gross National Income (in 2001)

Source: Action Aid website, 0.7 campaign<sup>19</sup>

The truth is that donating foreign aid is a political decision. That is why political means of pressure have to be used. Presently, it seems that for most countries supporting developing countries is just an element of states' public relations strategies. That would explain why Japan and the US feel comfortable spending that little percentage of GDP on ODA. They can show another table showing that they occupy two top positions as donors in absolute terms.

There are two approaches possible to promoting an increase in the volume of foreign aid: bottom-up and top-down. The first one is rather long-term strategy: to build awareness of the misery of billions of people in the world among rich countries' citizens. This might convince them to push politicians to more noteworthy actions, including raising spending on ODA. The top-down approach is possible

<sup>18</sup> EP Resolution on Financing of Development Aid (18/4/2002), European Parliament, <http://europa-eu-un.org/article.asp?id=1327>

<sup>19</sup> <http://www.actionaid.org/policyandresearch/aideffectiveness/zeroseven.shtml>

even in short-term. This would be the case when governments make the decision to augment expenditures on foreign aid and convince their voters about the importance and efficiency of such actions.

Another issue that can be pondered upon together with increasing the international aid is the concern of debt relief. Most developing countries have been indebted since the mid 1970's when they were forced to take credits after the fourfold increase of oil price between 1973 and 1974. Scale of the problem can be also attributed to easiness of receiving the credit due to the over liquidity of banking system after gigantic deposits of petrodollars in industrialized countries' banks. Yet problems got worse after the second oil crisis (1978-79 – twofold rise in oil price) and enormous instability of interest rate. Presently, many poor countries do not have financial possibilities of paying their debts or even of paying their interest. That is why some of debts should undergo conversion or be relieved. Moreover, debt relief action should go beyond Brady Plan. The reduction of debts should leave the debt below payback capacity of the beneficiary in order to allow for some flexibility in budget policy.

Obviously, as debt relieving in a sense promotes countries that took too much credit and are unable to pay it back, this action has to be undertaken with prudence. In order to get this relief a country would have to advance structural adjustments and proceed with a serious plan of export-orientation of its economy. A package of preferential credits to countries advancing radical pro-market changes should also be worked out.

The role of Europeans in increasing volume of ODA is important due to the fact that the enlarged EU will constitute the biggest economic superpower in the world. Therefore, any fraction of percent of GDP spent on ODA would mean immense sum of money. Besides, as pointed out in the section concerning humanitarian aid, in order to live up to its dream of prime international importance, the EU has to develop its soft power (especially that it does not possess considerable hard power, i.e. numerous, mobile and well-equipped military). And soft power comes mostly from the possibility of offering or cutting down contributions. The European countries, particularly Paris Club members, should also promote radical debt relief to countries willing to integrate with global economy.

But most importantly, the European countries should give up their policies supporting declining industries, give up pleasing subsequent groups of interest and liberalize their economies in order to achieve GDP growth. Without their own economic expansion it will be difficult to convince European societies to donate more for the poor.

The problem of structural reforms concerns both the EU as an institution and a majority of Member States. In general, European countries have overregulated economies, elevated taxes and high level of redistribution. In addition, government expenditures of two out of three biggest economies of the EU

are too high, what leads to budget deficits exceeding even norms reflected in the Growth and stability act. As a result, GDP of the EU grows very slowly – in the decade 1994 – 2003 annual GDP growth only once (in 2000) exceeded 3%, compared to 7 times in case of the US.<sup>20</sup> It seems that European economy should be revived by means of liberalization and de-socialization.

Without structural reforms, the GDP of the EU will continue to crawl and there will be little margin for the increase in ODA. Moreover, preserving that elevated level of fiscal burden restrains business initiative. A sociological consequence of too powerful and oversized government is treating a state as an organization that should take care of citizens rather than institution founded to provide peaceful environment to promote individual interests. And this might lead to underestimating the core issue for reducing world poverty, namely initiating free and fair international trade.

### **Fair trade**

The point made in this section is short and sounds trivial. Nonetheless, it talks about the very first actions that should be taken by developed countries in order to reduce global poverty. These are giving up subsidies (especially agricultural) to domestic producers in developed countries and levying tariffs and non-tariff barriers against goods produced by poor countries.

No doubt, this postulate is radical – its realization would lead not only to significant changes in the global political and economic scene but also to serious popular discontent among populations of rich countries. Even so, it seems that taking such actions and covering their domestic costs by rich countries would have much more positive consequences for developing countries than refusing to free trade and spend even the same amount of money on assistance or development programs for poor regions of the world.

The World Bank Policy Research Report entitled “Globalization, Growth and Poverty: Building an Inclusive World Economy” presents evidences that globalization can be made use of by developing countries to promote growth and reduce poverty.

The study shows that countries that were consequent in liberalization of their economies and integrating into the world economy progressed in almost every domain of human development. 24 developing countries (including among others China and India), inhabited by some 3 billion people, achieved longer life expectancy, higher level of education and growth in typical incomes. The average GDP growth rate in those countries accounted for 5% and these countries were decreasing distance to

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<sup>20</sup> Barcellan L., *Real GDP growth rate*, EUROSTAT, [http://europa.eu.int/comm/eurostat/newcronos/queen/display.do?screen=detail&language=en&product=LT&root=LT\\_copy\\_1031680375681/strind\\_copy\\_817397594099/ecobac\\_copy\\_872035736020/eb012\\_copy\\_523621056600](http://europa.eu.int/comm/eurostat/newcronos/queen/display.do?screen=detail&language=en&product=LT&root=LT_copy_1031680375681/strind_copy_817397594099/ecobac_copy_872035736020/eb012_copy_523621056600)

developed countries by some 2% a year. The number of people living in poverty declined significantly.<sup>21</sup>

On the other hand, the rest of developing countries, predominantly in sub-Saharan Africa, the Middle East, and the former Soviet Union have been unable to increase their integration with the world economy. Some two billion inhabitants of these regions could not profit from expanding economies, because GDP of their countries remained flat or actually declined. As a result, the number of the poor has risen. Education levels have augmented much slower than in countries pursuing liberalization and adopting more market-oriented institutions.<sup>22</sup>

Nevertheless, these are not only mistakes in domestic economic policies that prevent poor countries from developing faster. As the report states, tariffs for goods produced in poor countries are on average two times higher than for goods sold in rich countries. Furthermore, agricultural subsidies used in developed countries account for \$ 350 billion a year while foreign aid on aggregate does not reach \$ 60 billion.<sup>23</sup> And, as Executive Director of Oxfam International stated in his speech on Cancun summit failure, “with 97% of world’s farmers in developing countries, agriculture is the most important development issue in the trade round.”<sup>24</sup>

There is no doubt about the necessity of tariffs reduction and radically reducing subsidies to production in developed countries. This would drastically increase developing countries’ growth possibilities and encourage them to get involved more decidedly in international trade, what would (accordingly to the World Bank research cited above) strengthen their economic expansion even more. Besides, that would probably have positive impact on rich countries economies as well. Reducing spending on subsidies would give them possibility of cutting down taxes or reducing budget deficit and therefore boosting their own economies.

The role of Europeans in making international trade (particularly in agricultural products) fairer seems obvious. After all, the EU’s Common Agricultural Policy (CAP) is the largest mechanism of supporting farmers and rural areas in the world. However, it is necessary to point out that the CAP has been changing in favor of developing countries for some 12 years. As the EU Farm Commissioner, Franz Fischler states in the foreword to an explanation of the EU position in Cancun (which is hardly

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<sup>21</sup> *Globalization, Growth and Poverty: Building an Inclusive World Economy*, December 2001, The World Bank Policy Research Report, <http://econ.worldbank.org/prt/globalization>

<sup>22</sup> *ibidem*

<sup>23</sup> *ibidem*

<sup>24</sup> Hobby J., *Leadership, Governance and Human Rights* speech, The 2003 Business and Human Rights Seminar, December 2003, [http://www.oxfam.org/eng/pdfs/doc\\_031209\\_jeremy\\_speech\\_business\\_humanrights.pdf](http://www.oxfam.org/eng/pdfs/doc_031209_jeremy_speech_business_humanrights.pdf)

hidden critique of the US agricultural policies): “criticism from some camps based on the overall amount of subsidies not only rings hollow, it is simply irrelevant.”<sup>25</sup>

Throughout the entire document the European Commission of Agriculture and Rural Development persuades that modifications of the CAP since 1992 and particularly the reform from June 2003 have made the EU’s agricultural policy much more supportive to undeveloped countries. The EC puts pressure on decoupling agricultural support, it has notably advanced. That is true that the CAP has significantly moved away from price support towards direct support, what made CAP much less trade-distorting. Presently, EU declares its will to do more to “make Doha Development Agenda a success [under condition that their] trading partners also show their willingness to contribute, rather than camping on extreme positions which ask for everything, offer nothing, and stand no chance to be accepted by all WTO members”.<sup>26</sup>

It is difficult not to agree with Fischler’s statement that changes in the CAP are heading in the direction pointed by the OECD (decoupling aid for farmers from production and switching to other less trade-distorting policies) and that policies of the US government (ex. US Farm Act) show the opposite trend. Nonetheless, the opinion that “the EU has put together its major contribution, now it’s up to others to move to make WTO trade talks a success”<sup>27</sup> is definitely over-exaggerated. The EU still spends some € 10 billion (ca \$ 13 billion) on market support and export subsidies.<sup>28</sup> To compare, Community budget for humanitarian aid in 2004 accounts for € 0,49 billion<sup>29</sup> (ca \$ 0,64 billion). In sum, Commissioner Fishler is right that CAP became less destructive to developing countries’ economies and implemented changes allowed the poor increase exports to the EU. However, it should be neither a source of the EU’s self-satisfaction nor a justification for holding back the process of trade liberalization. On the contrary, significant results of changes in CAP should additionally motivate the EU officials to continue efforts to convince member countries’ governments to agree to complete eradication of subsidies and trade tariffs (at least on agricultural products).

Besides continuing reforms aiming at wiping out tariffs and subsidies, the EU has to be active on international level. It should put pressure on developed countries from outside the EU to join efforts in combating tariffs and subsidies. Having compromised on this, rich countries would have the power and arguments to convince the poor to eliminate their tariffs both on agricultural and on industrial goods. In passing, this would have additional positive influence on developing countries, letting them

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<sup>25</sup> Fischler F., *EU Agriculture and the WTO. Doha Development Agenda. Cancun – September 2003*, [http://europa.eu.int/comm/agriculture/external/wto/backgrou/cancun\\_en.pdf](http://europa.eu.int/comm/agriculture/external/wto/backgrou/cancun_en.pdf)

<sup>26</sup> *ibidem*

<sup>27</sup> *ibidem*

<sup>28</sup> *ibidem*

<sup>29</sup> *The budget*, European Commission, ECHO, Humanitarian Aid Office, [http://www.europa.eu.int/comm/echo/finances/budget\\_en.htm](http://www.europa.eu.int/comm/echo/finances/budget_en.htm)

make use of international labor division also by trading among each other. In general, this would mean an immense change in international economic relations making subsidies and tariffs an exception rather than a rule.

No doubt, this scenario seems completely unachievable. However, it is worth to reflect whether it is not mostly because hardly anyone takes it seriously. Two famous figures presented in newspapers around the world before the Cancun WTO Summit were \$ 500 billion rise in global GDP and 144 million people driven out of poverty as a result of trade liberalization. Having that significant possibility of “enlarging the cake” it seems rational to do so before sharing it. Keeping the vision of an “enlarged cake” in mind, it is easier to think about reaching the solution how to achieve it. Combining eliminating tariffs to and subsidies for agricultural products together with freeing the trade in industrial goods and maybe even in services would be the method to “enlarge the cake”.

Cancun Summit showed that poor countries, although tireless in underlining their interests, would be ready to negotiate that kind of comprehensive agreement. And actually the only two parties that could start the serious discussion about it were the US and the EU because of their global economic and political importance. However, the US had smaller chances of success due to their common perception as the biggest supporter of globalization. On the contrary, the EU could benefit from the US’ reputation and put forward such a deal. In fact, it would be difficult for the US policymakers to explain to American voters that the US did not agree to trade liberalization proposed by the Europeans (Bartenders in R. Kagan’s nomenclature<sup>30</sup>) while the EU is present in American political discourse as a synonym of over-socialized economy. Therefore, even though it sounds surprising, even after the Cancun Summit failure, there might still be a margin of consensus to reach. And the EU is the party that has the biggest chances for success if it began to advocate such a deal the first.

Again, similarly to the case of support to best practices in foreign aid, if the EU is to be successful, it must act as a whole. To gain importance and influence on the global scene, it is necessary for the EU to be perceived as one, powerful grouping, not only a group of countries cooperating on economic grounds. Without going deeply into the European decision-making process, it is necessary to increase the role of the European Commission and the European Parliament at the expense of the European Council, where unanimity requirements should be further limited. Moreover, the pace of making the decision should be fastened and “Mr. Europe” selected in order to give make it clear who speaks for the EU (now it is very vague – is it Head of the European Commission, Secretary-General of the Council of the European Union and High Representative of the Common Foreign and Security Policy or maybe even the EU External Relations Commissioner). This would not only give the answer to

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<sup>30</sup> Kagan R., *Of Paradise and Power. America and Europe in the New World Order*, Random House, Inc., New York, 2003

famous Kissinger dilemma (“If I want to talk to Europe, who do I phone?”<sup>31</sup>), but also assure greater weight of the European arguments.

It is necessary to add that presently, after the EU enlargement and controversies on the method of weighting votes in the EU Council, there is very little chance for advancing European integration in a way presented above. Therefore, taking into account also the widespread weakness of leadership in European countries, there is very little chance for development of the scenario elaborated on above. However, this is the paper on the role that Europe should play. If all temporary constraints were taken into consideration, the conclusion would probably be to follow the road, because nothing can be changed.

### **Summary**

In a comprehensive paper on reducing world poverty, there should yet be chapters on historical and political sources of poverty, on regional differences of types of poverty, on fighting poverty in post-socialist countries and in developed countries, on detailed economic policies countries should adopt in order to reduce poverty, on international institutions connected with combating poverty, on military conflicts prevention, on links between poverty and terrorism and probably a few others. However, this paper was supposed to discuss only the role of the Europeans in eradicating poverty. Narrowing the subject led to certain simplifications and abandonment of some fascinating issues.

Despite the above, this analysis shows the most important fields where the Europeans and particularly the European Union have an important mission to fulfill. Due to the ambitions of the EU and of certain European countries to play an important role in international relations, being unable to derive political power from military strength, the EU must base its authority on soft power. That is why EU should put great pressure on international cooperation, foreign aid etc.

There are several actions of great importance for the Europeans to undertake are. The most important is promoting global trade liberalization. The EU should cut down subsidies (above all on agricultural products) and tariffs and press forward massive campaign persuading other developed countries to do the same. That is an issue worth of the application of all EU diplomatic possibilities. The positive results of such an action would be immense for both rich and poor countries. However, such a move would require a strong leadership both in the EU and in all its Member States, as such radical programs would be resisted by many social groups within European society (ex. French ‘farmers’ and Polish peasants).

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<sup>31</sup> Fontaine P., *Europe in 12 lessons*, European Commission. Directorate-General for Press and Communication, October 2003, p. 63, [http://europa.eu.int/comm/publications/booklets/eu\\_glance/22/en.doc](http://europa.eu.int/comm/publications/booklets/eu_glance/22/en.doc)

Increasing the effectiveness of foreign aid should be derived from four sources: pursuing the best ODA practices, focus on educational and infrastructural investments, redirecting aid to the countries adopting sound economic policies and finally putting forward a list of programs to sponsor. The latter idea is designed to make use of the EU's possibilities to go far beyond decisions on spending their own donations. The catalog of tasks to sponsor would exploit the EU's potential of increasing effectiveness of global international aid thanks to tactical approach to combating global poverty.

Finally, the European countries should increase spending on international aid and promote "strengthened Brady Plan." This is possible only after having achieved significant economic expansion in the EU. That is why also European economies need structural adjustments and the EU as a whole should aim at applying "Washington Consensus" its own economy.

While sitting at the computer desk, drinking Pepsi and eating chocolate it is extremely difficult to think about those, who never had a chance to go to school or to see a doctor. It is most probably even more difficult for people, who do not spend their time watching GDP statistics or reading on global poverty. No doubt, great majority of Europeans do not even want to reflect on the global poverty. And knowing the human nature, it should not be surprising. However, there are yet people, who have power and are clearly aware that money spent on subsidizing French cheese producer could be used to save a family dying of hunger in Ethiopia. Just like in the US, \$190 thousand subsidy to Ted Turner, one of the largest private landowners in the United States, could be used to supply fresh water to a village in Chad or to build primary school in Guatemala. It is all about starting to think that well-being of these people is more important than cheese producer's vote in the upcoming elections or other \$ 50 thousand for a presidential campaign. Maybe recognizing this simple trade-off between ineffective budgetary spending and saving peoples' lives and encouraging making decisions upon comprehensive reflection on it might be the role of the Europeans in reducing world poverty.

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