Why People Fail in the Struggle with Poverty

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The vicious circle that keeps people poor in developing countries and the virtuous circle that can save them

Daron Acemoglu and James A. Robinson have written the important book, Why Nations Fail: The Origins of Power, Prosperity, and Poverty (2012). The thesis of the book, drawn from many deeply researched case studies, is that nations succeed when they develop inclusive political and economic institutions that unleash the potential of each citizen to innovate and develop, and they fail when they maintain institutions “that are structured to extract resources from the many by the few.”

The book has a certain linkage with the Millennium Development Goals. At the turn of the century, drawing attention to the severe persistent poverty in developing
countries, the United Nations promulgated the Millennium Development Goals aspiring to halve the number of people in severe poverty by 2015. The instruments for doing so are largely aid-based – providing food, education, health care and infrastructure to the nations and peoples most in need.

In these remarks I want to draw the connection between inclusive institutions that unleash the potential of people, which I will call empowerment, and the aid modalities that are highlighted by the MDGs. I want to suggest that aid goals must be supplemented by empowerment goals and that the key to empowerment is the creation and maintenance of markets that are accessible to the people on their merits and not blocked by undue state or private restraints. This discipline – making markets work and wresting them from extractive governments and vested interests – is competition policy. Whereas the aid goals, by definition, cost money and require hand-outs, the empowerment goals cost nothing (except to dismantle restraints); and when the restraints are dismantled the need for the aid significantly disappears because the people are, by definition, empowered to help themselves by doing what they could do best all along.

Indeed, one might consider not that the market goals supplement the aid goals but that the aid goals supplement the empowerment goals. Good competition policy is the unnamed, under-appreciated ninth millennium goal. Good competition policy helps nations achieve inclusive economic institutions in the sense articulated by Acemoglu and Robinson.

Why, then, do people fail to lift themselves out of poverty? They fail because they do not have enough to eat (malnourishment at an early age retards brain growth and intelligence; approximately 16 million people in developing countries are malnourished). They fail because the leaders of their countries conspire against them by condoning and entrenching corruption by the few with power (the national
extractors), thus shutting off economic opportunity on the merits. They fail because the developed countries of the world conspire against them by disregard: exploiting the loopholes in the world trading system (the vulnerable are always in the loopholes), further shrinking opportunity on the merits. While rich countries hand out aid to poor countries and protest that all they want is the poor population to earn a living and enable themselves, they embrace exclusionary trade and competition practices that disable the poorer population from succeeding on their merits.

Oxfam calls it: “Cultivating poverty.” Not just tolerating it; cultivating it. The earnings that the poorer population would realise if the anticompetitive barriers were dropped exceed the amount of the aid that the rich nations give, as observed by distinguished Financial Times journalist Martin Wolf.

Thus, to summarise, people fail because: 1) The children do not have enough to eat, nor do they have adequate schools; 2) Corrupt national leaders “eat” the supper of the poor, and national legislators build perverse state barriers through self-interest or lack of concern; and 3) The developed nations violate the norms of cosmopolitanism and exploit the vulnerable populations in developing countries, disabling poor farmers from doing what they can do better than the western farmers, through subsidies and export cartels.

Categories two and three invoke their nemesis, competition policy. Good competition policy would give the people a better chance and provide the earnings to counter hunger. The categories are intertwined. Only by addressing them all and together can the nations and their peoples avoid the traps of failure. I want to tell five stories.
People fail because they are malnourished

For my first story: Nine years ago I read an editorial in the New York Times that I cannot forget. It was called “A Better Way to Fight Poverty.” It is a story of a school in a village in Kenya called Sauri. Anne Omolo, the then new head teacher of the only primary school in Sauri, arrived at the school to find that all of the children were listless, performed poorly, and missed many classes. What was the problem? She discovered that it was food; the children were hungry; they did not get enough to eat. She started a food programme. She found a few parents who could bring in a little extra; but still, there was not enough to go around. There were 100 students. Omolo had to make a terrible choice. She decided to give out the food only to the top two grades – 7 and 8 – because soon these students would be taking national exams in hopes to move on to high school. The younger children went to the windows to watch the older children eat. And the older children came alive. They went to school every day. They had energy and excitement. Their scores shot up, and they did well in the national exams.

People fail because officials are corrupt and legislators enact monopolistic laws

My second story is about corruption. I was in Tanzania in 2009 on a technical assistance trip. Godfrey Mkocha, who was then head of the Competition Commission, gave me a book, It’s Our Turn to Eat, by Michela Wrong. I imagined from the title that the story of the book would mirror the school in Sauri; food was so scarce, the family members would have to take their turns. Of course, as many of you know, it turned out to be something very different. The tribe in power would take its entitlement: bribes and corrupt payments. When administrations changed, the tribe newly in power would take
its turn to extract bribes and divert public resources. Resources never got used for their intended purpose. The officials would siphon them off for their personal gain. They set up shell corporations to receive the money authorised by government (themselves) for education, healthcare, food, and infrastructure. The schools and roads never got built.

People fail because they are hurt by state-related economic constraints

My third story is about state monopolistic restraints. The economic restraints that hurt the people the most are usually state-related. In Kenya there is a marketing board for pyrethrum – a plant. The blossoms of the plant are made into an extract which is a very important insecticide for crops. Kenya, at one time, had an open market in pyrethrum, and the business flourished. It was selling 80 per cent of the world production. Then the government set up a marketing board with exclusive rights. The marketing board was the monopoly buyer of the plant and the monopoly seller of the extract. Tens of thousands of farmers were thrown out of business as a result of the state monopoly. The Competition Authority of Kenya, supported by the World Bank, launched a campaign to reform the law. Success is on the horizon.

People fail because of the disregard and exploitation by the developed world

My fourth story is about trade and competition. As noted, Oxfam undertook a study which it called Cultivating Poverty. The study was about subsidies, especially cotton subsidies that the US and EU give to their farmers; almost all goes to big agriculture. The subsidies naturally induce the westerners to over-produce cotton and to sell it to the world at artificially
low prices. Farmers in Benin can produce cotton at two-thirds of the cost in the West. But the West exports cotton to African countries at a price lower than the farmers’ costs. Many of them and their families starve.

Corn is also subsidised. American corn farmers receive more in subsidies than the entire gross domestic product of Burkina Faso – a country of more than two million people, most of whom depend on corn production. American corn farmers receive three times more in subsidies than the entire US Agency for International Development (USAID) budget for Africa’s 500 million people.

Martin Wolf calls this phenomenon – selective illiberal trade policy by the touters of free trade – “the hypocrisy of the rich.”

People fail because of cartels

Story 5. Canada and Russia have potash export cartels. Potash is one of the ingredients in fertiliser that the farmers need to grow their crops, especially in Africa. The potash producers fix prices for export, raising them by 600 per cent, thereby inflating a necessary input and helping to impoverish the farmers in Africa. When confronted with the injustice as well as the inefficiency of their conduct, with the fact that Canadians cannot legally price-fix to buyers in Canada, and with the fact that the principle against price-fixing cartels is a world norm (albeit a soft norm; there is no world law), Canada answers: The cartel is important to Saskatchewan and its economy.

Conclusion

Why do poorer people fail to lift themselves out of poverty? Their countries and the world conspire against them, depriving them of their best chances to help themselves. They are caught
in the vicious circle of not enough food and thus diminished capabilities from birth, and blocked opportunity fired by corruption, government barriers, and public and private restraints on trade and competition that enrich the few and hurt the many. But there is a virtuous circle on the horizon, marked by an inclusive economic and political environment and inclusive competition policy, in the spirit of Acemoglu and Robinson. Personal economic empowerment is a better way to fight poverty.