Can We Solve the Issue of Poverty Without Solving the Issue Of Conventional Economic Paradigm: A Critical Review

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Abstract

The paradigm of conventional economics is based on the invisible hand theory of Adam Smith. Individual freedom and the allocation of resources based on free market forces are the main pillars of this paradigm. The basic objective of an individual is to maximse private interest (utility/profit). Helping poor is not incorporated in the objectives of economic agents. Hence, poverty and income inequality come out as negative externalities of this paradigm. This paper suggests that until the problem in the roots of conventional economics is not solved, just working on to fix the negative externalities may not solve the issue of poverty. The paper proposes that the real solution of poverty lies in the paradigm shift where the objective of individual falls in line with the objective of a society.

1. Introduction

Economics aims to allocate resources in order to achieve Human well-being. One of the parameters of achieving human wellbeing is the eradication of poverty. This is the reason that the main objectives of the Millennium Goals, agreed by 149 countries at the UN Millennium Summit in New York, is the halving of poverty by 2015.

What is poverty? Literature offers four alternative understandings of poverty: the monetary approach, the capabilities approach, social exclusion as defining poverty and the participatory approach (Laderchi et al., 2003). However, in practice, the monetary approach mostly retains its dominance in descriptions and analysis, both nationally and internationally. Under monetary approach, poverty is defined as *"a state or condition in which a person or community lacks the financial resources and essentials to enjoy a minimum standard of life and well-being that is considered acceptable in society"* (Pakistan Economic Survey, 2014). According to World Bank (1990) poverty is basically *"inability to attain the minimal standard of living and having insufficient money to purchase basic necessities of life such as food, clothing, housing, elementary education etc."* Hence, the poor are those who do not have sufficient income or consumption to put themselves above some ample minimum threshold of wellbeing in the society (World Bank, 2001).

Each country is trying to eradicate the issue of poverty with its own resources. Besides, World Bank, International Monetary Fund (IMF), International Labour Organization (ILO), United Nations Organization (UNO), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations International Children's Emergency Fund (UNICEF), United Nations Development Programme (UNDP), Asian Development Bank (ADB) and various other international organizations and institutions are allocating funds for the eradication of poverty. Likewise, in Pakistan, many government and non-governmental organisations work for the alleviation of poverty such as Benazir Income Support Programme (BISP), Pakistan Poverty Alleviation Fund (PPAF), Pakistan Baitul Mall (PBM),

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AKHUWAT, Khusli Bank Pakistan (KBP), Al-khdimat Foundation, Edhi foundation, National Rural Support Programme (NRSP). Apart from this a lot of academic and research seminars/conference are arranged on the issue of poverty in the world as well as in Pakistan by various Research and developmental agencies such as PIDE, SDPI, and Innovative Development Strategies (IDS) etc.

One expects that in the presence of so many organisations and work, poverty in the world and Pakistan might have dropped to a negligible level. However, the current situation of income-based poverty in the world shows that In 104 developing countries 1.2 billion people had an income of $1.25 or less a day (HDR, 2014). The same report shows Multidimensional Poverty headcount for 91 developing countries around 1.5 billion people based on Multidimensional Poverty Index (MPI) which measure deprivations in the three HDI dimensions—health, education and living standards. And although poverty is declining overall, almost 800 million people are at risk of falling back into poverty if setbacks occur. Many people face either structural or life-cycle vulnerabilities. This is in-spite of the fact that over the past three decades, the extent of global poverty has declined rapidly. The percentage of people living in extreme poverty in 2013 is less than half of what it was in 1990 (WB, 2013). In the same way income inequality in the world shows that 40 percent of the world's population living on less than US$2 a day accounts for 5 percent of global income. The richest 20 percent people account for three-quarters of the world income. In the case of sub-Saharan Africa, a whole region has been left behind: it will account for almost one-third of world poverty in 2015, up from one-fifth in 1990 (HDR, 2007). The 85 richest people in the world have the same wealth as the 3.5 billion poorest people. Between 1990 and 2010 income inequality in developing countries rose 11 percent (HDR, 2014). In a recent keynote address to an OECD policy forum on income inequality, Richard Freeman (2011), professor of economics at Harvard University, noted that "*the triumph of globalization and market capitalism has improved living standards for billions while concentrating billions among the few. It has lowered inequality worldwide but raised inequality within most countries*".

The situation of poverty in Pakistan is that every third person is living his life below the poverty line (SDPI, 2012). Baluchistan which is considered as the land of mineral is facing a serious issue of poverty, 52 % of total population in Baluchistan living below the poverty line, 33 % of Sindh population are living below the poverty line followed by KPK having 32 % ratio. In Punjab 19 % population live below the poverty line. The study measures poverty on the basis of five dimensions – education, health, water supply and sanitation, household assets/amenities and satisfaction to service delivery. Further, a person taking less than 2,350 calories per day and earning less than $1.25 per day according to the United Nations standard has also been regarded as living below the poverty threshold. Human Development Report (2013) ranks Pakistan at 146th out of 187 countries with Human Development Index (HDI) value of 0.515. The Inequality Adjusted Human Development Index (IAHDI), the multi-dimensional poverty index (MDI) and Gender Inequality Index (GII) for Pakistan remained at 0.356, 0.264 and 0.567, respectively. These indices show more inequality and non-income dimensions of poverty (UNDP, 2013). The gap between poor and rich is increasing day by day in Pakistan. Gini coefficient in Pakistan shows an increase of about 17 percent or 6 percentage points from 0.35 in 1987-88 to 0.41 in 2004-05. On the other hand, a relatively old report on human development (HDR, 1998) showed that the global spending on luxuries were enough to educate all and provide them basic health as shown below

Table 1: Global priorities and world need of basis social services

Global priority	$ U.S Billions	Cost to achieve universal access to basic social services in all developing countries	$ U.S Billions
Cosmetics in the United States	8	Basic education for all	6
Ice cream in Europe	11	Water and sanitation for all	9
Perfumes in Europe and the United States	12	Reproductive health for all women	12
Pet foods in Europe and the United States	17	Basic health and nutrition	13
Business entertainment in Japan	35		
Cigarettes in Europe	50		
Alcoholic drinks in Europe	105		
Narcotics drugs in the world	400		
Military spending in the world	780		

Likewise the demand of luxuries such as branded clothes (Zeb et al, 2011), cosmetic, sun glasses, mobiles, cars and other luxury items are on rise in Pakistan showing a positive trend in the gap between poor and rich.

The question arises that why conventional economics fails to achieve even a single objective of human wellbeing. The paper aims to answer this question. The paper conjectures that the existence of a very serious flaw in the philosophy of the conventional economics is the root cause of poverty and until that flaw is removed, we cannot see drop in poverty in the world as well as in Pakistan. Economists set the goal of eradicating poverty from the globe, which is fundamentally, normative; however, the strategy they adopt for the eradication of this poverty is derived from the philosophy of invisible hand theory, which is inherently positive. Due to this in consist approach, the world is facing continuous problem of poverty and income inequality.

Rest of the paper is organized as follow. Section 2 sheds lights on the conventional approach for the eradication of poverty. Section 3 discusses the inconsistency in the conventional approach regarding tackling poverty. Section 4 offers how to make strategy in line with social objectives. The final section concludes the paper.

2. Conventional Approach for the Eradication of Poverty

The main focus, in the conventional approach for the eradication of poverty, remains on how to transform traditional Third World agriculture-based economies to a modern industry-based capitalist economy. In this regard, poverty has not always been the prime concern. Rather, the primary concern remains on the wealth of nations and accumulation of capital. The reason is that conventional economic theory is firmly set in the mold structured by Adam Smith (1776). That is to allow individual to maximize their private gains. Invisible hands will help poor though helping poor will not be the objective of those, maximizing their private gains. This concept of invisible hand theory has played vital role in diverting economists' attention primarily towards wealth-generation regardless of how it is distributed among its individuals.

Regarding distribution, the mainstream economics is of the view that there exist inconsistency between equality and growth. It is assumed that the marginal propensity to saving (MPS) of poor is lower than MPS of wealthy. Hence, inequality is a precondition for getting to higher savings, investments and finally growth. High savings, through initial unequal distribution of income, leads to high investment and then increasing demand for labour in next stages of growth process leads to higher wages and higher share of labour income. This hypothesis is at the core of Kuznets curve, based on which poverty and inequality could be resolved over time through "trickle-down effect"

Under this approach the solution for poverty requires full implementation of three D's namely deregulation, decentralization and denationalization (see for example, Ghayur and Burki, 1992). It is assumed that such policies will lead to higher economic growth and lead to low poverty without any intervention in markets. Likewise, the advocates of this approach recommend the elimination of general or non-targeted subsidies as it leads to price distortion which has a negative effect on economic performance. The "social safety net" and paying cash subsidies is introduced to compensate the negative welfare effects of those who are suffered from higher prices during the adjustment period.

Conventional economists over the time recognised that growth alone cannot eliminate poverty. Hence, they introduced a series of poverty-reducing strategies in the 1970s, including Basic Needs Strategies. However, according to Cornia et al., (1987) these concerns were again forgotten in the 1980s when stabilisation and adjustment policies and the other market based polices were implemented. According to Dinni (2009*)* when "economic structural adjustment and stabilization policies" in the framework of "Washington Consensus" implemented in countries in early of 1980th, there was a conventional belief that pro-growth policies will reduce poverty at global and national levels. However, this did not take place. In many African, South Asian and Latin American countries the poverty rate increased overtime. Estimated data based on UNDP database shows that inequality in distribution of world wealth has increased dramatically during 1960-94. The share of industrial countries has increased from 77.3% in 1960 to 81.4% in 1994 while at the same time the share of developing countries has decreased from 22.7% to 18.6%.

The poor economic performance and sharp rise in poverty in many countries in the 1980s led to renewed interest in poverty. Likewise, the negative results, particularly in African countries were so great that International Monetary Found (IMF) and the World Bank were forced to pose the idea of social safety net (see also, Stewart, 1995). Hence, following UNICEF's *Adjustment with a Human Face* in 1987, UNDP's first *Human Development Report* in 1990, and the World Bank's 1990 *World Development Report* on poverty made the reduction of poverty once again a central agenda of the development. And in the early 1990s, the World Bank President, Lewis Preston, declared that 'poverty is the benchmark against which we must be judged' (See, Dinni, 2009).

Over the time the emphasis also shifted from income growth to unemployment, to income distribution and to basic needs. The basic need approach consider development as the enhancement of *human freedom* by ensuring the opportunities to lead freer-life (Streeten, 1995). To Sen, people cannot be free if they do not have the resources to do *what they like to do* (Sen, 2001). The core of basic need social judgment is 'to favor the creation of conditions in which people have real opportunities of judging the kind of lives they would like to lead' and to focus 'particularly on people's capability to choose the lives they have reason to value' (Sen, 2001: p. 63). In this approach, 'the focus has to be on the freedom generated by commodities, rather than on commodities seen on their own' (2001: p. 74). Adequate nutrition and safe water, better medical services, better basic schooling, decent shelter and continuing employment are all considered as parameters to measure the 'success of society' by this social judgment approach. Since the provision of these goods cannot be ensured by market, therefore basic needs approach see it the primary role of state institutions to redistribute resources towards the deprived segments of society

Wolfensohn, (2000) is of the view that *"A balanced and holistic understanding of the causes and effects of poverty can lead to reforms that promote inclusion, economic growth that reaches the poor, and social development—these are key to sustainable peace ... Our job will be to help countries harness the trends ... to promote growth, poverty reduction and social harmony".* (pp. 7–8)

3. Inconsistency in the Conventional Approach

The main focus in the conventional approach remains on growth and, over the time, on the different dimensions of growth. As mentioned above the principle argument in the conventional approach is that mass structural poverty would be eradicated by capitalist-induced growth, however, poverty management exercises (in the form of compensation and resettlement, social protection and social risk management) will supplement, support and harmonise this growth process. However, these poverty management exercises by various agencies including World Bank are seemingly contradictory. The reason is that they first consider poverty as structurally determined by backwards institutions and hence necessitating a transition of such institutions based on free market forces. Then, they emphasise the need for the benevolent handholding of the poor through social protection programmes who come out as a negative externality of the free market forces strategy.

The capitalist approach of growth first makes people poor and then suggests how to provide relief for the same. Hence, growth based on the invisible hand theory could not be a solution of poverty. For example, Harris-White (2006) argues that the poverty cannot be eradicated in capitalism; that on the contrary poverty is continually being created and re-created under the institutions of capitalism. The study explains that capitalism is a mode of production in which capital – in the form of money and credit, physical machinery, stocks of goods and labour - is privately owned. Production is for sale, labour is for sale, sale is mediated through money. The owner of the means of production, often operating through specialised managerial labour, controls the hiring and firing and working conditions of labour, the choice of technology, the commodities produced and the exchange of the output. This owner has access to credit from specialised financial institutions, even though he may contest its control. An employer's control over capital takes place in the context of competition for market shares. The objective of profit maximisation forces the capitalist to adopt new techniques leading to unemployment. Likewise, Burkett (1991) is of the view that Politicians, the mainstream media, and orthodox social science have all been telling us that capitalism is the only viable option for solving the world's problems. Yet, the global capitalist system is itself entering the third decade of a profound structural crisis, the costs of which have been borne largely by the exploited and oppressed peoples of the underdeveloped. The study further states that the World Bank's assertion that free-market policies are consistent with effective antipoverty programs does not confront the class structures and global capitalist interests bound up with the reproduction of mass poverty in the third world.

The above discussion shows that there remain fundamental flaw in the approach for solving the issue of poverty. And this is the reason that poverty has come out one of the serious issues for the world. The above analysis also shows that the lasting solution of poverty is not what conventional economists present. Hence, a question arises that what the solution, then, is? The following section provides answer of this question.

4. Making the Strategy in Line with Social Objectives

The objective of poverty alleviation is a normative goal. Hence, it could not be achieved with a strategy that is positive and non-normative. The problem with the current strategies is that it does not judge individual behavior based on whether it is leading us to our desired goal or not. The current situation of the world economies is like a school where the objective is to have a result with the highest number of 'A' grades students. But, the administration of the school allows every student to schedule their time the way they wish. Hence, if the students allocate more time for non-academic activities such as playing games, surfing internet etc., the less likely it is to achieve the set goals. One cannot argue that as the objective of every student is to get 'A' grade, hence by allowing them free to set their schedule, the objective of the school for having higher number of A grades will be automatically achieved. For achieving the goal, the administration of the school needs to judge the behavior of students based on the objective set for the school.

In the same way we have normative targets of poverty alleviation, but the conventional economics allows every individual to allocate resources the way they desire. The freedom and maximization of self-interest is protected in this system. In addition, the freedom regarding the allocation of resources is not subject to any moral constraints. The current system assumes that the phenomena of free market forces where every individual pursue private interest will lead to the alleviation of poverty, inevitably. This is a very unrealistic assumption and the existing level of poverty in the world contradicts this assumption. Individual are myopic and motivated by personal interest. They are unable to match the desirability of their private demand with what is required for the interest of the society. Hence, they need some scale for judging the matching of their private demand with the interest of society. It is common in our day to day life that we pass moral judgment on the demand of family members for having an excursion trip to Europe if their brothers or sister is starving to death as it contradict with the interest of family. The same way we need to pass moral judgment on the behavior of individuals if it does not fall in line with the interest of world family. If this world is like a village, then it not possible to say that let the people enjoy their life while most of them are facing the abject level of poverty. A village with such inconsistent philosophy for their dwellers can never see the dawn of a day with poverty eliminated.

The true solution of poverty is a paradigm shift where the freedom of individual is judged on the base of its consistency with the moral objective set for a society. Hence, we need to give up promoting market economies with the current philosophy of invisible hand theory. The economist needs to promote a world where individual is realized to maximize their freedom after passing it through moral filter. According to Moudoodi (2010) the fundamental difference between the human and animal need is that human being not only want satisfaction of their need, but also seek grace in it. The level of seeking grace in the demand is so heterogeneous that sometime it exceeds the level of optimality. The human being is unable to clearly know and understand this level of optimality. For example, one can drink water in any glass, but taking grace or pleasure from drinking may lead to having it in golden glass.

Likewise, the need of human being is to conceal his body from outside environment. The satisfaction of this need could be done by wearying simple dress. However, wearing fashionable dress, fancy clown, golden cuffs are the personification of this grace. Hence, intervention from outside is required to curb this level of pleasure passing an optimal limit. In this regard a fundamental requirement is that an individual has to judge his behaviour on the basis of some ethical constraint and have to give up pursuing self-interest if it clashes with the interest of others and that others might be group of individuals or whole society.

To stop individual from working against his self-interest for the sake of social interest require a very strong motivation. This motivation is not possible without incorporating the sense of accountably in him. That is making him understand that for every action against the interest of society, he will be hold responsible. Such motivation cannot be a fear from public authority as public authority cannot monitor him for 24 hours. Hence, some force must exist permanently to force him for abstaining from hurting social interest. One such force is his internal conscience. However, the limitation of internal conscious is that it sometime becomes weak from stopping individual to hurt other. Hence, the only solution is the fear of punishment in the life here after for doing wrong in this world. The concept of punishment and reward in the life here after exist in all religion but is strongest in Islam.

The individual must believe on a day of judgment. This belief must be strong enough so that whenever a clash between private and social interest arise, he must stop there without any coercive force of government. Rather, he should fears the bad consequence of such act in the life here after. So the belief of life here after is inevitable for optimal allocation of resources from social point of view. Without a strong belief on the life hereafter, it is almost impossible to stop people from maximizing selfish gains at the cost of social cost. If this is not the case then, we will remain counting poverty for another 100 years, but we can never eradicate poverty. A time will come when all economist of the world will realize that even if we cannot prove scientifically the existence of life here after, but we do need a belief on such day for the best and optimal allocation of resources. However, for this to happen we have to clear the field of economics from the supporter of those who got vested interest in the current paradigm. They will never let it happen. We have to struggles with such people and their cronies. Hence, promotion of moral based behavior is the only solution of current poverty in the world and in Pakistan.

5. Conclusion

Poverty is a side effect of current economic system based on the theory of invisible hand given by Adam Smith (1776). The current system is based on an ideology that promotes individual liberty. Every individual is free in satisfying most of his demands. The individual does not judge his demand on the basis of any morality. Individual aims to maximise self-regarding preferences. Current system instead of criticism such selfish individuals, eulogize it. Hence the world is producing goods and services for those who are rich. This process, as a result, is concentrating resources in the hands of few and producing the issue of poverty.

The current approaches for the eradication of poverty have met with no success. The issue of poverty is still a menace for a society. The 85 richest people in the world have the same wealth as the 3.5 billion poorest people. Every third person in Pakistan is living his life below the poverty line. A significant population all provinces are passing life below the poverty line. Likewise, the gap between rich and poor is increasing day by day in Pakistan. While work on poverty is large, the success of those works appears less significant in the field.

This study argues that fundamental problem lie in the approaches for solving poverty. All current approaches consider poverty like a negative externality and wish to internalise its effect. However, until the main problem of selfishness and freedom without moral constraint is not taken into account in all approaches, the issue of poverty is less likely to go down. All current approaches do not ask people who are selfish to shun selfishness and observe morality. Rather it asks government for no- intervention in the affairs of such individuals. The paper suggests a complete paradigm shift in the direction of the field of economics for tackling the issue of poverty. The paper conjecture that without such shift, we cannot see the dawn of a poor free global village until another 100 years.

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