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Poverty Alleviation in The Developing Economies: Issue-A Review

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ABSTRACT

This paper denoted Many developing countries still suffer from poverty. We are concerned with nations in which more than half of the population lives in poverty, lacking any source. Margin above basic needs. The elements suggested as essential and critically important for poverty alleviation are: (1) investment in human capacity, (2) capital formation, (3) entrepreneurship, (4) international trade, (5) rural development and (6) equity and environmental quality. There is hope, however, for a better world, if developing countries respond successfully to the challenge of poverty alleviation taking into consideration the interconnections, interdependence and importance of the critical factors involved. Finally, in the developing world, economic development is the only hope of achieving higher standards of living, since the developed world is unwilling to allocate even one percent of its gross national product for world-poverty alleviation.

Key words: poverty alleviation, developing issue.

INTRODUCTION

As we enter the twentyfirst century, there is probably no greater challenge facing mankind than the worldwide poverty problems. Poverty is a large and growing problem in the world stemming from remoteness, lack of education and health care, insecure and unproductive jobs, high fertility and often women discrimination; resulting in an immense amount of suffering and joyless existences. As stated by Meier (1989, p. 26), it is difficult to define or measure the extent of the poverty concept. Absolute poverty, for example, means more than low income. There is also malnutrition, poor health and lack of education. just an economic phenomenon but a social phenomenon as well. Most developing countries are faced with the problem of poverty alleviation and reduction within the proportion of people whose incomes are less than one dollar per day, and the proportion of people who suffer from hunger. Policy makers within these countries recognize th~ importance of the problem; they came to the conciuslOn that there can be no real or effective economic d.evelopment without taking care of the different categones of poor people in the country (IF AD Report 2001). Within developing countries the basic causes of poverty are almost the same. Among these causes we can mentionthe increasing level of unemployment, the increasing level of child withdrawal from schools and learning facilities, the increasing level of family disintegration and divorce, the increasing level of rural to urban migration, and in general a lack of investment in human being. Indeed, strategies on how to proceed in order to fight poverty differ from one country to another. In what follows, I will try to develop from a theoretical perspective, the key elements needed to be recognized, understood and utilized for poverty alleviation in most developing nations.

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some time that poverty than just an economic phenomenon but a social phenomenon as well. Most developing countries are faced with the problem of poverty alleviation and reduction within the proportion of people whose incomes are less than one dollar per day, and the proportion of people who suffer from hunger. Policy makers within these countries recognize th~ importance of the problem; they came to the conciuslOn that there can be no real or effective economic d.evelopment without taking care of the different categones of poor people in the country (IF AD Report 2001). ' rates vary lllversely With the level of education. Low P?verty rates are associated with high education levels and high poverty rates with low education levels. Education has become one of the fundamental tools (a powerful instrument) necessary for reducing poverty. In the last two ?ecades, T.W. Schultz, through his studies on human capital, made economists increasingly aware of the fundamental importance of education as an investment. Considered .the father of human capital theory, Schultz has two stral.ghtforward messages: (i) investment in improving populatlon quality can significantly enhance the econom- ~c prospects and welfare of poor people and (2) knowledge is the most powerful engine of production (Schultz, 1.981). For poverty a~leviation a high priority must be asSigned to human capital through investments in formal education, on-the-job-training, and health programs the increasing level of unemployment, the increasing level of child withdrawal from schools and learning facilities, the increasing level of family disintegration and divorce, the increasing level of rural to urban migration, and in general a lack of investment in human being. Indeed, strategies on how to proceed in order to fight poverty differ from one country to another. In what follows, I will try to develop from a theoretical perspective, the key elements needed to be recognized, understood and utilized for poverty alleviation in most developing nations.

investment in human beings is a necessary condition to remove economic backwardness, to promote opportunities and to prepare people to solve problems and to take inventive, rational approaches to the issues confronting them. Education is also of importance in preparing people for greater individual freedom of action and choice, and hence a key to the direct objective which many persons set for economic development. In today's world, a nation's success in the global economy is not determined by the quantity of its natural resources, but by the quality of its human resources (the case of Switzerland, Singapore and Japan). Education has beenEducation has been increasing in developing countries. However, more must be done to assure the right type of education for poverty alleviation. Investment in human capital calls for new approaches necessary to establish priorities for the various possible forms of useful skills: (1) general education includes the broad range of primary, secondary and higher education, (2) education for development is selective about the knowledge, abilities and skills needed for a society that wants to develop rapidly, (3) education for people of all ages gives people the opportunity for a lifetime of scientific thinking and develops their ability to continue obtaining new knowledge, learning new skills (on-the-job training), and solving new problems, (4) extension education provides farmers with the technical know-how and the results of production-increasing research, and (5) technical training is important in keeping people's knowledge up-to-date over time. According to the UNDP Human Development Report (2002), in the developing countries as a whole, the adult literacy rate (% age 15 and above, 2000) is 73.3. Therefore, each developing country must give careful consideration to its educational system, should develop an effective education policy that provides incentives and opportunities for the poor, promotes entrepreneurship (entrepreneurial talent) and accelerates the process of human resources development. In a developing society, education should be for people of all ages. In other words, since people are the real wealth of a nation in a developing society, greater access to knowledge in the perspective of an educational system for all ages throughout life,

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should be fostered. Continuous learning certainly is an essential for poverty reduction. But not all learning occurs in schools; in many instances, educational projects (home education) for women help them to learn better ways of caring for their families, encourage them to change positively their ways of living and to develop a more confident attitude about life in general. Finally, with respect to education, in today's fast-changing knowledge environment, older and unklled individuals are in the greatest need of additional training

Capital Formation The productive capacity of an economy is influenced by the rate at which it invests in human capital as well as physical capital. In any economy physical capital goods are important because they help to increase the productivity of the poor and job creation. For the purpose of this analysis, capital is defined as the physical productive wealth of an economy (factories, machines, laboratories, roads, schools, trucks, telephone lines, etc.). Expenditures on capital are referred to as gross investment. Net investment is defined to be the net addition to the stock of capital taking place during some period of time. It is the difference between gross investment and replacement investment, carried out in order to maintain the existing stock of capital operational. Thus, net investment will be positive (i.e., the stock of capital will increase) only if sufficient investment is larger than replacement investment. Sufficient net savings and investment play a major role in the functioning of the economic system. They are necessary for economic development and for breaking the poverty cycle since there is a straight relationship between higher rates of savings and higher rates in the capital stock available to the business sector. It should be emphasized that, to a great extent, a nation's rate of growth of national output is directly related to the percentage of gross domestic product invested. In other words, the higher the percentage of output invested, the higher can be the rate of growth of output. However, poor countries, like poor families, are ordinarily unable to save and hence experience little or no economic growth (the vicious circle of poverty). These nations should afford to break the vicious circle of poverty by their own efforts to allocate greater proportions of savings over time for the purpose of accumulating capital. In general, developing countries have low rates of capital formation since net savings and investment run between 5 and 10% of the national income (Higgins 1968, p.189). Following Geiger reasoning, one can state that: • if 12% of GNP is saved, economic growth and poverty alleviation will be extremely difficult to achieve, as the existing stock of capital depreciates at an average rate of 10%, and population increases at 2-3% per year. • with 15-20% of savings and capital formation, moderate growth is possible. • if capital formation reaches 20-25%, rapid economic development will be possible at an average annual rate of 5%. • at rates over 25%, high average growth rates of 5-10% become possible as in the case of Japan (Mansfield and Behravesh, 1995). A nation's rate of economic growth is influenced by the rate at which it invests in physical capital as well as human capital. The relationship between physical capital and human capital is very important. It has become evident that a better-educated work force is needed to make effective and productive use of durable equipment. Indeed, in the most fundamental sense, the importance of human resources in the economies of the developing nations can be explained using the theoretical framework within which an increase in capital may be a necessary but not a sufficient condition for an increase in output

INTERNATIONAL TRADE

International trade is at the forefront of the development agenda, and it is a critical element of any strategy to fight poverty. Over the past two decades, developing countries that increased their integration into the world economy achieved higher growth in incomes (an average of 5 % in the 1990s), longer life expectancy, and betterschooling (Hoekman, et al. 2002). Clearly, there are gains

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to be achieved through trade in the development process. Foreign trade optimizes production and the larger the volume of trade, the greater should be the potential for development. Moreover, developing countries should seek not merely greater trade volume, but also trade at higher export prices.

An exporting country must have something that importing countries want and need. This is the first basic requirement for international trade. Relative productivity of different countries producing different commodities is an important measure of their ability to compete for world markets. Thus, competitive advantage is the key to economic competitiveness in international trade at any given point in time or space. Vigorous participation in the world trading system is a powerful tool for developing nations in fostering economic development and in reducing poverty. Driven by significant advances in information and communication technology, the global economy is currently undergoing a rapid change. Over the coming years, developing countries will face complex trade negotiations within the major world trading partners (the World Trade Organization, the European Union, etc.). The major challenge for these countries consists therefore in taking advantage of the opportunities to advance their development objectives in the context of international trade negotiations. For developing countries, a smooth integration into the world economy is a valuable opportunity to: • increase the pr~ductivity and the learning rate of the economy over time • gain and improve market shares of exports • face competition in order to create a competitive advantage • allow for economies of scale and overcome the diseconomies of being small • encourage productive factors to move where there is a comparative advantage • stimulate investment from any saving of export income • develop both comparative and competitive advantage • respond and take advantage of the benefit of international trade • survive and grow economically • improve net exports and develop a favorable balance of trade • fight poverty. Economic growth is the primary instrument by which developing countries reduce poverty. In the most fundamental sense, economic growth is the necessary (but not the sufficient) condition for economic development and it is concerned with policy measures aimed at expanding a nation's productive capacity (an outward shift of an economy's production-possibilities curve). The sufficient condition for economic development is the process by which a nation attains a positive transformation of its entire social system. For poverty alleviation, as rationality

RURAL DEVELOPENMT requires a recogmtIon since the problem of hunger and malnutrition in the developing countries is rooted in the problem of rural poverty. Rural development may be defined as making rural areas a better place in which to live and work. It is a multisectoral activity which includes agricultural development, rural industry, the establishment or improvement of social infrastructure (schools, clinics, roads, rural electrification, improvement in quality of rural housing, communications, water supply), and welfare services {e.g. disease control, improved nutrition, adult literacy, family plan ing). Emphasis is directed to the well being of people and the quality of life rather than on economic growth itself. In the developing countries, the majority of the poor live in the rural areas and the term rural development now implies among other things, a focus on poverty problems.

RURAL EMPLOYMENT NATIONAL GUARANTEE ACT (NREGA)

The NREGA bill notified in 2005 and came into force in 2006 and further modified it as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in Oct 2,2009. This scheme guarantees 100 days now 150 days of paid work to people in the rural areas. The scheme has proved to be a major boost in Indian rural population's income.To augment wage employment opportunities by providing employment on demand and by specific guaranteed wage

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employment every year to households whose adult members volunteer to do unskilled manual work to thereby extend a security net to the people and simultaneously create durable assets to alleviate some aspects of poverty and address the issue of development in the rural areas.The Ministry of Rural Development (MRD) is the nodal Ministry for the implementation of NREGA. It is responsible for ensuring timely and adequate resource support to the States and to the Central Council. It has to undertake regular review, monitoring and evaluation of processes and outcomes. It is responsible for maintaining and operating the MIS to capture and track data on critical aspects of implementation, and assess the utilization of resources through a set of performance indicators. MRD will support innovations that help in improving processes towards the achievement of the objectives of the Act. It will support the use of Information Technology (IT) to increase the efficiency and transparency of the processes as well as improve interface with the public. It will also ensure that the implementation of NREGA at all levels is sought to be made transparent and accountable to the public.Now 100 to 150 days work for all is provided.

CONCLUSION

Poverty is the ultimate concern of this new century. This paper focuses on the most effective means to improve the incomes of the poor in the developing countries. Six key issues are presented. First, the critical importance of investing in people stems from the fact that knowledge can be viewed as the most powerful source of economic growth. Human capital growth, through improved basic social services including health and education, can be considered the crucial issue affecting the prospects for significant poverty reduction. Second, the accumulation of capital is a characteristic of any growing economy. A nation's output depends on brain-power and on the amount of plant, equipment and sources of technical improvement. Third, a healthy economy is an entrepreneurial society where management is the new technology. Fourth, is the discussion of the vital role of international trade in today's dynamic global marketplace. In the international marketplace, the volume of foreign rade in goods and services continues to expand as foreign markets are increasingly recognized as business opportunities. Thus, developing nations should gain a larger share of world exports. The level of economic activity within a country is directly affected by the extent of its international trade. Exports tend to increase aggregate demand directly.

The gap between rich and poor nations can serve as an engine of worldwide development. That is, the gap should help the poor to accelerate their international economic integration and compete in the export of inexpensive lab or-intensive consumer goods and services. Fifth, I believe that developing countries should give top priority to rural development since the majority of the poor live in the rural areas. It is important to note that in order for rural development projects to be successful, both the problem definition and the alternative solutions must come from the rural community itself. Also, decision makers in the developing countries should help create the basic pre-conditions conducive to rapid rural economic growth and should find the right instruments that will spread the benefits of the economic reforms and investment to rural areas. Finally, with respect to equity and environmental management, developing societies should realize that it is only through a fair distribution of wealth and the judicious control of environmental degradation that the ideal of maximum social well-being can be reached.

To conclude, it is important to state that while acknowledging the differences and conditions within and among developing nations (economically, politically, and culturally), this study presents from a broad theoretical perspective what might be done in most developing economies in order to accelerate progress towards poverty alleviation.

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