27 What Do Extreme Poverty and Inequality Mean for Global Political Stability?

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Poverty and inequality are long-standing, complex global issues that require concerted and long-term engagements to address. Poverty denies individuals basic freedoms to attain a fulfilling life. Inequality can weaken the social fabric of society. It can discourage social mobility, increase political instability, create a political environment that misallocates resources, and potentially harm growth by decreasing human capital investments. Political upheavals like the Arab Spring have demonstrated how economic inequality and poverty can lead to social unrest and political instability as people seek to express frustration with the lack of inclusive economic progress.

Global poverty fell steadily for a few decades prior to the pandemic, yet this reduction had not been strong enough, and the target of ending global extreme poverty by 2030 (Sustainable Development Indicator 1.1.1) was already falling out of reach. The COVID-19 pandemic dealt the biggest setback to global poverty in decades. More than 70 million people were pushed into poverty by the end of 2020 compared to a year earlier. World Bank (2022b) projected that 7 per cent of the world's population—roughly 574 million people—will remain in extreme poverty in 2030, far short of the Sustainable Development Goal (SDG) goal of 3 per cent. The pandemic has also caused severe labour market disruptions in developing countries, bringing hardship especially for the self-employed, the uninsured and those least resilient to income shocks.

This chapter assesses current progress in the fight against extreme poverty before discussing the implications for global political and social stability. It puts a strong emphasis on the intertwining between poverty and labour income, with labour being the largest asset owned by the poor. The poverty reduction successes of the last 50 years, a period in which the world population increased by 4 billion (UNDESA 2019), are all to be found in countries that transformed their economy to create more productive and better-paid jobs, raising earnings. Despite these success stories of increased labour earnings reducing poverty, too many people in developing countries are still working in low-productivity, insecure jobs (World Bank 2019).

This chapter is organised as follows. First, recent trends in extreme poverty and inequality in the world are described, focusing on the impact of the pandemic. Various channels through which poverty and inequality can affect global political and social stability are then discussed. The chapter concludes by discussing some possible remedial policies.

Extreme Poverty and Global Inequality after COVID-19

Prior to the COVID-19 pandemic, the global community was making steady progress towards poverty reduction (World Bank 2022b). The pandemic dealt a major setback to

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global poverty reduction, making 2020 a historic turning point in which global income convergence began to give way to global divergence. During the pandemic, the poorest suffered disproportionately along many aspects of well-being. Moreover, the economic recovery from the pandemic has been uneven and affected some demographic groups more than others.

Pre-pandemic Trends

Global poverty fell steadily for a few decades prior to the pandemic. Global extreme poverty, defined as the population living under $2.15 in 2017 per person per day (PPP), has fallen steadily in recent decades. In 1981, the first year for which World Bank published global poverty estimates, nearly 44 per cent of the global population lived in extreme poverty. In 2019, this had fallen to less than 9 per cent (World Bank 2023a). Much of this progress was due to the remarkable progress that China made during this period, lowering its poverty rate from more than 90 per cent in 1981 to less than 1 per cent in 2019; it moved close to 800 million people out of poverty during this period (World Bank 2022a). All regions of the world, with the exception of Middle East and North Africa, have seen steady progress in poverty reduction. The global population living under poverty hovered between 1.8 and 2.0 billion between 1981 and 2000 before falling steadily to about 660 million in 2019.

Despite the progress in poverty reduction, the world was already off-track in meeting the SDGs. However, this reduction has not been strong enough, and the target of ending global extreme poverty by 2030 (Sustainable Development Indicator 1.1.1) was already falling out of reach. This is because poverty reduction was already slowing down on the eve of the pandemic. Global poverty rate fell at a rate of 0.6 percentage points per year between 2014 and 2019, much slower than the 1.4 percentage points per year between 2008 and 2013 (World Bank 2022b). Despite the steady progress in poverty reduction, it was already looking unlikely that the SDG target of 3 per cent poverty rate by 2030 would be met.

Global inequality also declined from the 1990s until the pandemic began. Similar to poverty, global inequality was also trending down prior to the pandemic (Mahler, Yonzan and Lakner 2022; World Bank 2022b). The global Gini index, which summarises the dispersion of income across the entire income distribution and ranges from 0 (perfect equality) to 100 (extreme inequality) points, hovered slightly under 70 points in the 1990s before falling steadily to 62 points in 2019. A convergence in mean incomes across countries was an important contributor to the decline in inequality. China played a large role in this decline (similar to the decline in poverty) since its rapid economic growth during this period lifted many people out of poverty. This reduction in inequality also reflects the strong income growth of the global middle class during this period. Other measures of inequality, such as income shares and the mean log deviation, tell a similar story as the Gini index.

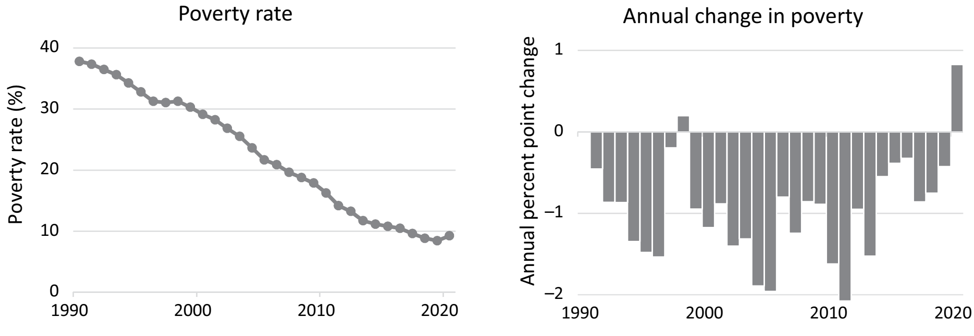
How Did the Pandemic Affect Global Poverty and Inequality?

The COVID-19 pandemic dealt the biggest setback to global poverty in decades. Estimates of the impact of the pandemic on global poverty and inequality are only suggestive at the time of writing this chapter in 2023 since many countries have yet to conduct household surveys that collect the appropriate information to estimate poverty rates.

World Bank (2022b) estimated, based on existing surveys and projections, that the pandemic increased the global extreme poverty rate from 8.4 per cent in 2019 to 9.3 per cent in 2020. This is the largest annual increase in global poverty at least since 1990 (Mahler, Yonzan and Lakner 2022). Figure 27.1 plots the global extreme poverty rate during 1990–2020. That implies that more than 70 million people were pushed into poverty by the end of 2020 compared to a year earlier. World Bank (2022b) projected that 7 per cent of the world's population—roughly 574 million people—will remain in extreme poverty in 2030, far short of the SDG goal of 3 per cent.

The impact of the pandemic has been multidimensional and especially pronounced in education and health. The costs of the pandemic go beyond the increase in monetary poverty (World Bank 2022b). The broader costs include lost learning due to the closure of educational institutions, declines in health-care use, increases in mortality rates, and a general disruption to social and economic activity. Moreover, these losses appear to have been more pronounced for women than for men, along with a sharp increase in domestic violence against women and children (Miguel and Mobarak 2022). Human capital losses were incurred not only due to lost education but also due to lost work experience (Samaniego *et al.* 2022). Vos, McDermott and Swinnen (2022) describe the increase in food insecurity and adverse impact on livelihoods due to the severe disruptions in supply chains and income shocks during the pandemic. Reliable estimates of the magnitude of the impact on these various non-monetary aspects of well-being may be a few years away since data on them is still being collected, but indications are that the non-monetary impacts may ultimately prove to be more costly in the long run than the monetary impact that the global extreme poverty rate measures.

The pandemic resulted in the largest increase in global inequality in decades. Despite a steady decline in global inequality since around 2000, Mahler, Yonzan and Lakner (2022) estimate that global inequality (measured by the Gini index over time) increased from 62.0 points to 62.6 points, the largest annual increase at least since 1990 (Figure 27.2). This increase in inequality is broadly similar to the cumulative increase in inequality during the Asian financial crisis from 1996 to 1999. World Bank (2022b) suggests that the increase in global inequality in 2020 stems less from within-country inequality than it does from between-country inequality. In other words, the increase in global inequality has been driven by declines in average incomes across countries. This pattern of higher



Note. Source: Mahler *et al*. (2022).

Figure 27.1 Global extreme poverty between 1990 and 2020.

Source: Mahler *et al.* (2022).

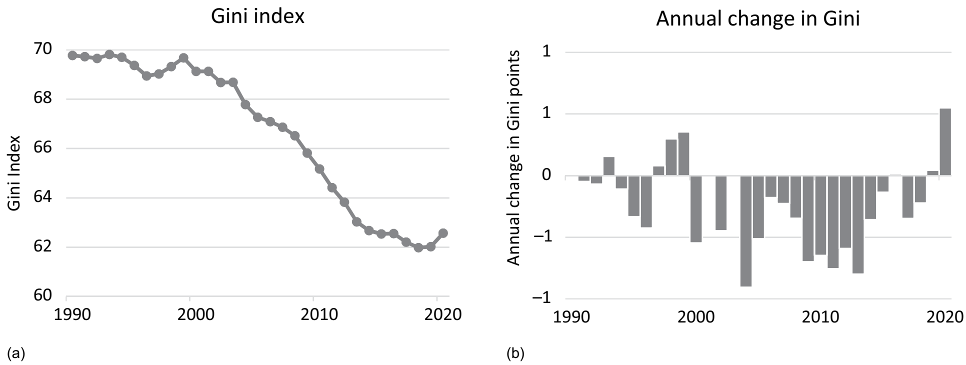


Figure 27.2 Global inequality between 1990 and 2020.
Source: Mahler *et al.* (2022).

inequality holds true even if other measures of inequality, such as the income share of different percentiles of the population, are examined. Mahler, Yonzan and Lakner (2022) find that the income share of people in the top 10 per cent of the global income distribution increased by more than one percentage point, whereas the middle 40 per cent and the bottom 50 per cent both saw decreases in their share of total income. Analysis by Deaton (2021) conducted early in the pandemic suggests that an increase in global inequality may not have happened in 2020 like the one described by Mahler, Yonzan and Lakner (2022). Ferreira (2021) warns us that inequality is a challenging concept on which to make definitive statements. Although indications are that the pandemic increased global inequality, it may take another few years of data collection to make reliable statements on this topic.

The recovery from the COVID crisis in developing countries is lagging the high-income countries. The richest economies have recovered from the pandemic at a much faster pace than low- and middle-income economies. Rising food and energy prices—fuelled by climate shocks and conflict among the world's biggest food producers—have hindered a swift recovery. By the end of 2022, as many as 685 million people could still be living in extreme poverty. This would make 2022 the second-worst year for poverty reduction in the past two decades (after 2020). The uneven recovery from the pandemic is likely to be compounded by emerging macroeconomic trends. New fiscal constraints and tighter liquidity in high-income countries have serious implications for the availability of international bond refinancing and for foreign direct investments and capital flows to developing countries. Rising inflation will also have important ramifications for global monetary conditions. U.S. consumer price inflation hit a 40-year high of 7 per cent in December 2021, leading to multiple interest rate increases in 2022 and 2023. The rise in global interest rates is already compounding the fiscal constraints facing slow-growing low- and middle-income countries, many of which saw their debt levels soar as they borrowed to cope with the pandemic.

How the Pandemic Manifested Itself through Jobs to Affect Poverty and Inequality

The pandemic caused severe labour market disruptions in developing countries, bringing hardship especially for the self-employed, the uninsured and those least resilient to income shocks (Khamis *et al.* 2021). It is important to note that the contribution of work experience to human capital accumulation and economic development might be as important as the contribution of education itself (Jedwab *et al.* 2021a). Much of what is known about the impact of the pandemic on jobs is from high-frequency phone surveys that were implemented by World Bank in collaboration with national statistical agencies in developing countries. Finding from these surveys suggest that the decline in labour income during the pandemic pushed an estimated 108 million workers into extreme or moderate poverty, erasing over 10 years of per capita income gains in more than a quarter of developing countries (World Bank 2021). Youth, low-skilled workers and women have also been hit hardest by the pandemic, which threatens to roll back gains in economic opportunities and further widening gender gaps.

The pandemic also deteriorated the quality of jobs among those who remained employed. This finding is again based largely on phone surveys conducted during the pandemic. Survey respondents reported a high rate of employment transitions, including moving from the non-agriculture to agriculture sector and changing employment type from wage employment to self-employment (World Bank 2022b). These transitions were more common among the less educated and among rural than urban households, which may have been a result of low-skilled urban workers migrating back to rural areas to take up farming.

The pandemic triggered a large shift to work from home. In a study of full-time workers from 27 countries, Aksoy *et al.* (2022) describe the pattern of work from home during the pandemic. They found that work from home averaged 1.5 days per week in their sample and ranged widely across countries. It is notable that after the pandemic ends, employers plan an average of 0.7 days per week of work from home, but workers want 1.7 days. Employees were also favourably surprised by their productivity when they worked from home, which was valued the most by women, people with children and those with longer commutes. However, findings from the United States suggest that the direct benefits flow much more to the better-educated and those with better health (Marshall, Burd and Burrows 2021). Similar findings from the United Kingdom suggest that workers in the highest income band and those in professional occupations were most likely to report home or hybrid working (Office of National Statistics 2023). All of these findings suggest that work from home may not only persist after the pandemic ends but also that its benefits may not be received by the least well-off.

Automation increased during the pandemic, but its long-term impact remains to be determined. Another prominent trend that was observed during the pandemic was the rise in automation in the form of replacement of human labour with emerging technologies to accomplish tasks with less human labour. This included telepresence, replacing store workers with self-checkout counters, more automation in warehouses, and fewer security guards in favour of cameras. Despite the accelerated adoption of automation, labour markets in the United States and other countries around the world have recovered reasonably well, admittedly, with variation across countries. Improving the economic security of workers most affected by automation is the challenge governments face. The remarkable actions taken by many governments during the pandemic to protect the economy and workers suggest that similar actions are possible in the future too. Although automation is likely to be more widespread in the future, its impact on jobs and the long-term consequences to workers remain to be seen.

Consequences of Persistent Poverty and Inequality

Poverty and inequality are long-standing, complex global issues that require concerted and long-term engagements to address. Poverty denies individuals basic freedoms to attain a fulfilling life. Inequality can weaken the social fabric of society. It can discourage social mobility, increase political instability, create a political environment that misallocates resources, and potentially harm growth by decreasing human capital investments under the presence of credit market imperfection. This section highlights the negative effects of low-quality jobs, which remain a widespread problem among developing countries, on poverty and inequality, which have been exacerbated by the COVID-19 pandemic. The research also highlights how poverty facilitates violence—global insecurity at the macro-level, domestic violence at the micro-level. However, it is worth noting that the early economics literature found that moderate inequality can be positively correlated with growth outcomes, and the literature has highlighted a lot of room for heterogenous effects, especially depending on the context of the country (Berg *et al.* 2018; Ferreira *et al.* 2018). Inequality can foster innovation and entrepreneurship (Lazear and Rosen 1981). The earlier literature argued that savings could be higher in the context of higher inequality, leading to a faster rate of economic growth (Kaldor, 1957) and that inequality can foster innovation and entrepreneurship (Lazear and Rosen 1981). As the literature advanced, the findings have been more nuanced—a model by Galor and Moav (2004) argues that the effects of inequality in growth depend on the returns to physical capital and human capital. More recent literature has found negative impacts of inequality (Berg *et al.* 2018). Lakner *et al.* (2022) show that reducing each country's Gini index by 1 per cent per year has a larger impact on global poverty than increasing each country's annual growth 1 percentage point above forecasts.

Poverty and Inequality Are Often Manifested through Jobs

Labour is the largest asset of the poor, and labour incomes account for over 70 per cent of the incomes of poor families across the developing world. Across the developing world, labour incomes account for over 70 per cent of the incomes of poor families, potentially being overwhelmingly the main driver of poverty reduction in low-income countries (LIC) and lower middle-income countries (LMIC) settings. Yet too many people in developing countries are still working in low-productivity, low-paid, insecure jobs, which limits the possibilities of reducing poverty through increased labour earnings. As such, increasing private labour incomes is key to reducing poverty. The poverty reduction successes of the last 30–40 years are all to be found in countries that have transformed their economies to create more jobs while raising labour productivity. In China, where World Bank estimates that around 400 million rural people were lifted out of poverty between 1988 and 2007, about two-thirds of that globally unprecedented reduction in rural poverty was found to have come from higher labour incomes: first in agriculture and then subsequently through structural transformation and off-farm economic growth as hundreds of millions of better jobs were created in cities through industrialisation and growth in urban services.[1] Simulating poverty reduction for 16 mostly middle-income countries, Azevedo *et al.* (2013) found that increased labour incomes were the key factor behind poverty reduction over the preceding decade. The International Development Goal to halve global poverty by 2015 was achieved through the creation of better jobs for more people. Millions of people worked their way out of poverty (World Bank 2012).

There are also powerful spillovers from better jobs into increased social cohesion, especially in LIC, LMIC and fragility, conflict and violence (FCV) settings. Examples of the positive social impacts of better jobs include spillovers from better jobs for young women into delayed family formation, smaller family sizes and increased household investments in the health and education of each child. Another example is the reduced propensity of young men in FCV settings to get involved in armed groups or criminal activities when they have access to better jobs, as well as the greater resilience of communities to destabilisation. In societies that want to reduce poverty and promote social cohesion, better jobs for poor people generate 'jobs-linked externalities' (Robalino and Walker 2017), which can justify using public policies and resources to support their creation.

Better jobs can help reduce global income gaps. Despite these success stories of increased labour earnings reducing poverty, too many people in developing countries are still working in low-productivity, insecure jobs. Over half of jobs in South Asia are still in low-productivity agriculture and services. For sub-Saharan Africa, the share is two-thirds. Even in the middle-income regions of Latin America and the Middle East and North Africa, over a third still work in agriculture and low-productivity services.[2] Formal waged employment is a small fraction of jobs in developing countries. The share of informal, own-account workers and contributing family workers in LICs is 78 per cent, compared to 37 and 9 per cent in upper-middle and high-income countries (UMICs and HICs), respectively.[3] The prevalence of informality typically leaves workers uninsured against loss of earnings and health shocks and without old-age pension coverage.[4] Gender differences in job outcomes remain large, including large pay gaps and resilient patterns of occupational and sectoral segregation. The care burden (for children and the elderly) also continues to fall disproportionately on women, limiting their labour market involvement (Folbre 2018; Juhn and McCue 2017; World Bank 2022c). The COVID-19 crisis has brought long-standing job challenges facing developing countries back to the forefront of policy discussions while also creating new challenges.

Most of the growth in the world's working-age population in the coming decades will be in South Asia and Africa, but most of the world's production, capital and good jobs are elsewhere. Today, South Asia and Africa account for one-third of the world's employment, one-eighth of global production and only one-tenth of the global capital stock.[5] UN population projections suggest that the world's working-age population will increase by just under 390 million from 2025 to 2035 and by another 306 million in the decade after 2035. Over 90 per cent of the increase between 2025 and 2035 will be in South Asia and sub-Saharan Africa. And between 2035 and 2045 (as population decline accelerates in many OECD countries), the increase in South Asia and sub-Saharan Africa will *exceed* the total growth in the global population of working age. Only a small part of this global imbalance between labour supply and capital allocation is likely to be offset by labour migration. So, unless capital and technology flow towards South Asia and sub-Saharan Africa and create better, higher-productivity, more secure jobs for their workers, global income inequality will worsen.

Poverty and Inequality Can Lead to Social and Political Unrest

Inequality can hurt investments in human capital, especially in developing economies, leading to lower growth. Credit market failures, which tend to be dominant in developing economies, can hamper the ability of the poor to invest in human capital and thereby hurt aggregate output (Galor and Zeira 1993). Further credit market failures may lead to differences in entrepreneurship between rich and poor (Aghion and Bolton, 1997). There is some evidence that inequality reduces education and life expectancy and increases fertility, thereby hurting growth (Berg *et al.* 2018). Inequality in landownership has also been found to adversely affect human capital-promoting institutions (public schools), threatening the pace and nature of transitions from agriculture and industrial economy, explaining the large differences in per capital income across economies (Galor, Moav and Vollrath, 2009).

Economic inequality weakens social mobility. Inequality may reduce people's belief in socio-economic opportunity. The theoretical underpinnings and empirical validation are discussed in Browman *et al.* (2019). The consequence of a lack of belief is that low-SES (socio-economic status) young people may not engage in behaviours that would improve their chances of upward mobility—e.g., persisting in school, averting teenage pregnancy. This relationship is not theoretically obvious. In economics, the 'human capital' model implies that inequality raises the return to investment for low-SES individuals, thereby increasing the likelihood that they will invest in human capital. Other frameworks propose alternative predictions. The 'economic despair' model predicts that low-SES youth are likely to perceive a lower rate of conditional success due to contextual factors and thus may be discouraged from making human capital investments. Similarly, the theory of 'socially determined aspirations' suggests that an individual's aspirations are determined by experience and the income distribution around them. Therefore, aspirations that are moderately above an individual's standard of living may encourage investment, while much higher aspirations may lead to frustration. Similarly, 'identity economics' indicate that appropriateness of behaviour is determined by an individual's relevant social category, and any attempt to leave a social group can be perceived as threatening. High levels of inequality in a society may calcify young people's sense of where they are in the social and economic hierarchy, making such identities more salient, thereby reducing investments that would increase upward mobility. Fields of anthropology and sociology have also highlighted that it's not necessarily a lack of resources and opportunities that result in low-SES youth remaining in poverty, but how disparities affect aspirations, worldview and character. Social psychology also highlights that individuals are motivated to persist if they feel difficult tasks are likely to help them reach the successful futures they envision. Contextual and environmental factors play a large role in shaping beliefs and expectations.

Higher inequality reduces behaviours that lead to economic success, further deteriorating social mobility. The empirical evidence in the United States shows that higher inequality reduces behaviours that lead to economic success. In state and metro areas, inequality increases the likelihood of high school dropout for low-SES youth, as well as increases the probability of becoming young unmarried mothers. Furthermore, income inequality affects aspirations. One lab experiment manipulated participant's perceptions of economic inequality in their society by randomly assigning some participants to read articles about rising inequality. Such individuals were sceptical about how much the prospect of upward mobility was in their control. Furthermore, beliefs about mobility drive certain behaviours related to success. Studies have found that participants completed more years of schooling when led to believe that their society was becoming a fairer and more meritocratic place. Thus, individuals from low-SES backgrounds might adjust behaviours based on their perceptions of how achievable socio-economic mobility may be.

Inequality increases political instability that may in turn hurt prosperity. Many notable studies in the economics literature have highlighted the negative effects of inequality on social and political instability. More unequal societies tend to be politically unstable (Alesina and Perotti 1996). A large group of impoverished individuals facing a small group of well-off individuals are likely to be highly dissatisfied. The large group of impoverished people is likely to demand radical change, increasing the likelihood of mass violence or illegal seizure of power. Those unequal societies are more likely to experience political instability. Political instability can hurt investment and thereby the economic prosperity of societies. Social unrest can disrupt productive activities. Such instability can also increase uncertainty. Both are likely to decrease investment. Political instability can also lead to policy volatility that further discourages investment (Dutt and Mitra 2008). Furthermore, countries with higher inequality may be characterised with higher ethnic tensions and social polarisation. This in turn decreases the security or property and contract rights (Keefer and Knack 2002). Furthermore, unequal societies with weak institutions find it more challenging to respond to external shocks (Rodrik 1999).

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Inequality can hurt investments in human capital, especially in developing economies. Credit market failures, which tend to be dominant in developing economies, can hamper the ability of the poor to invest in human capital and thereby hurt aggregate output under the assumption of indivisibility of the production function of human capital (Galor and Zeira 1993). Further credit market failures may lead to differences in entrepreneurship between rich and poor (Aghion and Bolton 1997). There is some evidence that inequality reduces education and life expectancy and increases fertility, thereby hurting growth (Berg *et al*. 2018). Inequality in landownership has also been found to adversely affect human capital-promoting institutions (public schools), threatening the pace and nature of transitions from agriculture and industrial economy, explaining the large differences in per capital income across economies (Galor, Moav and Vollrath 2009).

Income inequality distorts political economy incentives. Furthermore, inequality can lead to institutional channels through which rich elites will engage in political actions to maintain their positions of power (Bourguignon and Verdier 2000). Esteban and Ray (2006) argue that it may be easier for the rich to lobby governments, which in turn distorts the allocation of activities towards wasteful activities. The outcome of lobbying activities may benefit richer or poorer groups at the cost of society (Campante and Ferreira 2007). Acemoglu (2005) presents a model where oligarchies preserve their status by blocking democracies. Other authors theoretically show how the elite may prevent education of the poor to prevent large-scale reforms and the rents accrued to the already educated. Easterly (2007) empirically finds that institutions and schooling are the pathways through which inequality causes underdevelopment.

Redistributive policies to address inequality can hurt economic growth. Under certain situations, inequality can increase the need for distributive policies. Studies show that large gaps between median and mean incomes would result in societies choosing redistributive policies (Alesina and Rodrik 1994; Persson and Tabellini 1994). However, many studies have argued that inequality allows better-off agents the power to block redistribution (Benabou 2000; Galor, Moav and Vollrath 2009). Berg *et al*. (2018) empirically show that redistribution has benign effects on growth, while the effects of inequality through a reduction in investment in human capital and increased fertility among the poor hurts growth.

Inequality persists and can be intergenerational. The challenge of inequality is compounded by the fact that it can be intergenerational. Income inequality can have long-term consequences by affecting the human capital and income of the next generation (Aizer and Currie 2014). These play out through the channel of maternal circumstances that determine the health of newborns and end up having long-term consequences. Health behaviours during pregnancy tend to be worse for disadvantaged mothers—for example, they are more likely to smoke during pregnancy. Furthermore, disadvantaged mothers are more likely to live in areas with greater exposure to pollution, have less access to medical care and also more likely to have pre-existing conditions. This then reduces the health at birth of their children, who then have worse human capital outcomes throughout their lifetimes in terms of education and health, and lower incomes into adulthood. Thus, inequality can perpetuate itself across generations.

Poverty and Inequality Can Lead to Conflict

Inequality can lead to conflict. Economic inequality can provide ample motivation for conflict, as there can be material gain for the victors. But as highlighted by Blattman and Miguel (2010), it is not just the material motivations but the frustrations generated by inequality. The literature on the agrarian revolutions of the 1960s and 1970s shows that frustration over inequality motivated participation in rebellion as opposed to private gain. Thus, inequality, unmet expectations and poverty can lead to conflict. Inequality can generate conflict through material concerns ('greed') or through 'grievances'. Historical accounts have shown that public outrage over inequality (grievances), as opposed to material concerns, can motivate engagement in conflict (Collier and Hoeffler 2004). Cederman, Weidmann and Gleditsch (2011) find that rich and poor groups tend to fight more often in unequal societies than in more equal societies. A major concern in this literature is that inequality data tends to be unreliable. Using anthropometric measures of inequality from 1816 to 1999, Baten and Mumme (2013) find that inequality (or relative deprivation) is a key driver of civil war. But more importantly, perceptions of inequality matter. Perceived inequality has been found to be strongly correlated with conflict, even if actual inequality does not (Gimpelson and Treisman, 2018).

Inequality can encourage conflict at the local level as well. Thus far, most of the studies have explored the effects of inequality on a global scale. A recent study by Nandwani (2019) illustrates an interesting example of how local inequality can perpetuate violence. Political decentralisation is likely to improve access to local public services. Decentralisation leading to local government institutions in Adviasi districts in India in 1996 had heterogenous effects on the Maoist insurgency. The aim of the local councils was to address Adivasi grievances by recognising their traditional lifestyle and land, forests and water rights, thereby reducing their incentive to participate in an insurgency. The study finds that weak state capacity and unequal local power structure led the local elites in appropriating benefits, increasing the grievances of the Adviasi and thus likelihood of participating in the insurgency.

Poverty Can Escalate Domestic Violence

Poverty can perpetuate domestic violence. Women from disadvantaged backgrounds are at greater risk of intimate partner violence. Women with income below $10,000 annually report rates of domestic violence that are five times greater than those with annual income greater than $30,000 (Aizer 2011). Furthermore, female unemployment increases the likelihood of domestic violence (Anderberg *et al.* 2016). A randomised control trial in Ecuador that provided cash and food transfers to alleviate poverty reduced controlling behaviours and physical and/or sexual violence by 6 to 7 percentage points (Hidrobo and Fernald 2013; Hidrobo, Peterman and Heise 2016). Disadvantaged women are more proportionately likely to be domestic violence victims when pregnant. In utero exposure to violence leads to far worse outcomes for children well into adulthood, creating an avenue through which inequality transmits across generations.

Poverty Is Also Tied to Global Security

Poverty and inequality can endanger international security. Poverty and inequality can endanger international security by generating transnational threats. Brainard and Chollet (2007) assert provocatively that 'extreme poverty literally kills'. They claim this is true directly, through hunger, malnutrition and disease, but also indirectly by leaving poor countries vulnerable to domestic upheaval and war that can generate transnational threats to regional and international security. Rice (2007) examines the negative implications of developing-country poverty for global security. The study makes a case that poverty breeds insecurity by undermining the capacity of states to deliver critical goods such as economic growth, social welfare and basic physical security. Such poverty-induced capacity gaps can produce negative spillovers for regional and global security in the form of cross-border terrorism, crime, disease, and environmental degradation.

The nexus between poverty and insecurity is not always straightforward but instead often resembles a tangled web with intervening variables and reverse causality. Poverty and violence reinforce one another, but their specific relationship is mediated by context-specific drivers ranging from resource scarcity to weak institutions to malignant political leadership to demographic trends. Moreover, the world is full of weak states, but not all generate large enough negative spillovers that cross borders. And perhaps the linkage between weak states and transnational spillovers may be stronger than that between poverty and inequality with state weakness. But it remains that in an age of global threats, such as terrorism and pandemics, the global community cannot afford to be indifferent to poverty that weakens state capacity. Alleviating poverty is not only a moral but also a security imperative.

Conclusion

The COVID-19 pandemic was a reckoning for the global economy. Changes have manifested in a manner that it is hard to say for certain how far the course of human history has been altered. A few facts about the damages thus far have been uncovered—and they are consequential. World Bank's Share Prosperity report of 2022 makes for grim reading (World Bank 2022b). The pandemic and the ensuing war in Ukraine have reversed significant gains. In the three decades prior to the pandemic, one billion people escaped poverty as poorer economies—particularly India and China—grew at a fast pace, improving the livelihoods of their inhabitants. As the pandemic emerged in 2020, 70 million more people fell below the poverty line that year—the largest increase in poverty since 1990. The goal of ending poverty by 2030 is far out of reach—7 per cent of the global population will be living below USD$2.15 per day in 2030. Over three billion people—nearly half the world's population—live below USD$6.85 per day—the average poverty line for upper-middle-income economies. Inequality has also been exacerbated by the pandemic—losses of the global poorest 40 per cent were twice as high as those of the richest 20 per cent.

The SDGs explicitly acknowledge the importance of ending poverty in all its forms everywhere (SDG 1) and reducing inequality within and among countries (SDG 10). Meeting these goals was challenging to begin with, and the pandemic has only made these goals more difficult to achieve. Meeting these goals will now require not only higher growth but greater reductions in inequality than before the pandemic. The need to correct the course of reduction in global poverty and inequality is more urgent than ever. This can only be done with greater international cooperation by pooling our resources and ingenuity to address these challenges.

These challenges are not just of the immediate future. When poverty and the resulting food insecurity lead to malnutrition in babies, this can lead to long-term effects—quite possibly intergenerational. The link between an immediate episode of food insecurity leading to intergenerational consequences is the 'fetal origins' hypothesis (Almond and Currie 2011). The early traces of the fetal origins hypothesis stemmed from the medical profession in the 1950s and 1960s. The British physician and epidemiologist David J. Barker was one of the leading proponents of the hypothesis. He argued that the intrauterine environment, especially with regard to nutrition, can result in certain metabolic features that lead to future health consequences. For instance, individuals who lack nutrition in utero are more likely to suffer from obesity, diabetes and cardiovascular issues. The nine months in utero are considered a critical period that can shape the destiny of an individual. Thus, the effects can be persistent, and the health outcomes can be latent for several years (Almond and Currie, 2011; Almond, Currie and Duque 2018). The early empirical work in the medical profession on the fetal origins hypothesis was largely correlational. The economics profession produced several empirical studies that made the case for a causal relationship over a broader set of outcomes. The period of vulnerability to food insecurity may extend beyond in utero. Research has pointed to the first 1,000 days as crucial for childhood development, given that deprivation in this period is likely to affect a child's physical and brain development. Thus, malnutrition can lead to lower education, health and income outcomes well into adulthood. Indeed, children who live in extreme poverty may lose 25 per cent of their income-generating potential as adults (Richter *et al.* 2017). In fact, the children of these adults may be affected too. Rising food prices are a key factor in increasing hunger and food insecurity. Such increases in food prices may even result in conflict (Bruckner and Ciccone 2010; de Winne and Peersman 2021; Martin-Shields and Stojetz 2019; Ubilava, Hastings and Atalay 2022). Recent work by World Bank (Gatti *et al.* 2023) has shown that in the Middle East and North Africa, rising food prices due to the war in Ukraine may have increased the risk of stunting by age 5 for 200,000–285,000 newborns. The destinies of these children may be forever altered, perpetuating inequality and poverty.

What can policymakers do? First, cash and in-kind transfers can be particularly effective in a crisis. Cash transfers are costly, but if well targeted, they tend to help the worse off. More than 60 per cent of spending on cash transfers goes to the bottom 40 per cent while more than one-half of all spending on energy subsidies in developing economies goes to the richest 20 per cent of the population (World Bank 2022b). Gentilini (2022) notes the benefits of cash transfers, including the increase in the propensity to spend more on food, as well as improvements in dietary diversity.

The contrast between the effects of cash transfers that largely go to the poor and energy subsidies that largely benefit the rich can be reflected in the spending priorities of governments. Prioritising spending that addresses market failures or provides public goods can have the greatest benefit in pushing for long-term growth that is pro-poor and thus may reduce poverty and inequality. For instance, investments in human capital, such as early childhood development, can set a path towards greater prosperity. Examples of such investments include health, education, roads, electricity, and R&D (World Bank 2022b; Thomas *et al.* 2000). In fact, the reallocation of spending away from private subsidies to public goods has far-reaching benefits that encompass various aspects of society. Prioritising public good spending can increase growth (Thomas *et al.* 2000), make the environment cleaner (Galinato and Islam, 2017; Islam and López, 2015; López, Galinato and Islam, 2011), encourage entrepreneurship (Islam 2015), and boosts revenues for small- and medium-sized enterprises (Islam, Galinato and Zhang 2021). Investments in human capital tend to be environmentally friendly and thus cleaner. Their benefits also accrue to the whole private sector, unlike private subsidies that tend to be captured by established large firms. Public good spending also tends to complement private investment, and thus they boost the private sector while also encouraging entrepreneurship. However, simply reallocating budgets from private subsidies to public goods may not be sufficient given the rising debt faced by many developing nations. International coordination to address the fiscal challenges may be necessary.

Mothers play a crucial role, and the well-being of children, or how well societies protect them, will play a huge role in the crucial period of early childhood. When one thinks of the long-term effects of poverty and how inequality can be perpetuated, a large part of the story is how it affects children and what comes of them as adults. These are indeed the long-term effects. Thus, a wider range of gender-related policies comes into focus. The availability, affordability and quality of childcare are crucial, and recent work by World Bank's Women Business and the Law team goes into the details of childcare policies around the world (World Bank 2022c). Furthermore, policies related to maternity leave can afford women the flexibility of empowerment through jobs while also investing time with their children at a crucial stage. Recent evidence shows that paid maternity leave has positive effects on women's employment (Amin and Islam, 2022). Education has also been found to help women climb up the career ladder (Islam and Amin, 2016). More importantly, ample evidence has shown that laws and regulations that discriminate on the basis of gender tend to hurt women's labour market prospects and beyond (Amin and Islam, 2015; Hyland, Djankov and Goldberg 2020; Islam, Muzi and Amin 2019). Reforming such laws is indeed a priority across the world. These encompass a wide range, including mandating non-discrimination in hiring practices (Amin and Islam, 2014), as well as domestic violence legislation (Amin, Islam and Lopez-Claros, 2021). Intimate partner violence, through both injury and stress, has negative effects on birth outcomes (Aizer, 2011).

In line with the argument made in this chapter that in the poorest economies, more productive, better-paid jobs are people's surest way out of poverty, a policy focus on jobs as economies grow ensures that poverty reduction and the human side of development stay firmly in focus. The limited availability of quality jobs remains the most pressing problem in developing countries. Demographic changes that have affected the growth and composition of the working-age population around the world in recent decades are expected to add over one billion people to the working-age population of the world between 2020 and 2050. Applying a jobs-focused approach to development which puts the creation of more productive and better-paid jobs at the centre of countries' growth strategies is fundamental to escaping poverty in a sustainable and durable way (Walker, Saliola and Merotto 2022).

There has been some debate about whether discriminatory laws matter, and there is evidence that many businesses do not enforce discriminatory laws (Hyland, Islam and Muzi 2023). However, for those firms that do discriminate, women have far worse outcomes. Similarly, there is some debate about whether reforming laws has any impact given overriding social norms. Indeed, corrective misperceived social norms have been found to have positive effects on women's employment (Bursztyn, Gonzalez and Yanagisaea-Drott 2020). Recent experimental evidence does show that laws have a causal effect on social norms (Lane, Nosenzo and Sonderegger 2023).

Finally, the enormous challenge of obtaining accurate estimates of poverty and income inequality cannot be understated. Investments in data systems are necessary; otherwise, policymakers will be in the dark. More recent developments in big data, as well as administration data provide opportunities but also come with substantial risks. The 2021 World Development Report on Data for Better Lives lays out a foundation for how to harness the power of data for development while minimising and accounting for the risks (World Bank, 2021). The report calls for a new social contract for data that enables use and reuse of data to create value, ensure equitable access and foster trust.

Notes

1 Only as the poverty rate approached 10 per cent of the population (between 2013 and 2018) did transfers become the main driver of further rural poverty reduction. Transfers include both social insurance and private transfers from urban waged workers back to their families.
2 Jobs Group calculations for this study used the ETD database of GCGD/UNU-WIDER.
3 Data are per World Bank DataBank, which uses data retrieved from the International Labour Organization (ILOSTAT) database, January 29, 2021.
4 World Bank (2023b) and the WDR 2019 make the distinction that social insurance is increasingly not linked to waged work and that alternative forms of protection are needed.
5 World Bank (forthcoming) Jobs Flagship Report. Authors' calculations using Penn World Tables 10.0 output-side real GDP at current PPPs (in 2017 mil. US$).

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