11 Poverty in the Highly Developed Market Economies

The major countries of the North American continent, namely the USA and Canada, and the countries of Western Europe had virtually conquered the problem of poverty in the second half of the nineteenth and the first half of the twentieth century, though the conquest was not total. The advent of the market economy and the phenomena of the great economic revolutions of the eighteenth, nineteenth and twentieth centuries were responsible for lifting up the economic levels of these areas and reducing the extent as well as the intensity of poverty. The revolutions that emerged and coexisted in a telescopic manner comprised urbanization, the agricultural transformation, the commercial and industrial revolutions and, more recently, the technological and communications revolutions. The progress of rationality in the nineteenth century, the shift from autocratic to democratic regimes, the social revolution comprised by the emergence and strengthening of trade unionism, the extension of voting rights ending in adult franchise, the movement to establish the rights of women and the evolution of the welfare state, all played their role in promoting economic growth and social development. These far-reaching occurrences raised the standards and levels of living, created a new dynamism in economic, social and political organization and consolidated the welfare state of the twentieth century with its network of social services focusing, in particular, on education, health, unemployment compensations and old age benefits.

These great processes, on the one hand, were a major cause of economic growth and development and, on the other, raised the masses from the squalor and abject poverty of an earlier era into a decent level of living for nearly everybody. In many important senses, poverty could be said to have been virtually conquered. Many of the aforementioned movements were extended from North America and Western Europe to the newly industrializing areas of Australia, New Zealand and Japan. It was, perhaps, the first time in history that the whole mass of the population in these countries had been subjected to economic and social uplift and it is not an exaggeration to epitomize these developments as major achievements in poverty elimination.
It was no accident that all these economies were industrialized economies with market orientation. The trends of improvement continued in the second half of the twentieth century and these economies were able to overcome the impact of two long-lasting bloody wars in the first half of that century and continue their progress in economic development, social uplift and poverty reduction.

However, even as the advance of the laissez-faire economy brought market freedoms and substantial economic and social benefits, the market economies became subjected to violent economic fluctuations owing to the phenomenon of the trade cycle, in particular, in the late nineteenth and the first half of the twentieth century. The rise and fall of the national product, the increase and decrease in investment activity and the ups and downs of employment and unemployment had the effect of periodic fluctuations in poverty levels. Even as the trend in the growth of these countries tended to reduce poverty, the cyclical fluctuations during the economic downturns and upturns, depressions and recoveries, followed by another and yet another similar cyclical movement, threw masses of people again and again into the category of poverty.

In the second half of the twentieth century, though there were no serious depressions of high intensity such as the Great Depression of 1929–33, there have been economic recessions of considerable extent and depth, with some differences of definition existing between the two. It can be observed through statistical analyses that in the post World War II era, recessions have been coming with increasing frequency and that each recession has lasted longer than the previous one. Immediately after 1951, recessions only lasted about two years but their duration got extended later on to three to four and even to five years. The recession beginning in 1979 in the USA gripped the rest of the industrial world in 1980 and lasted four years, ending in the USA in 1983 and Western Europe in 1984. But the recession which started around 1991 went on in many industrialized nations till 1996, lasting rather longer than its earlier counterpart.

Between any two recessions, there have been short periods of recovery but these recoveries have been generally quite weak. A recovery has hardly lasted more than a few years when yet another downturn has taken over and soon converted itself into a recession. During the depressions earlier and the recessions more recently, as the national income declines, government’s tax revenues go down, huge budget deficits emerge and unemployment takes an ugly turn, throwing large numbers of people out of jobs and economic activity. Unemployment rates in the industrialized nations during recessions have varied from 5 to 10, or even 12 per cent of the workforce, amounting to absolute numbers like four million in Germany.