

Crisis and Poverty

First of all, I would like to thank the International Bar Association for inviting me to be the key note speaker for the Women's Interest Group. I sincerely hope that the subject chosen will be interesting for everyone even though it is not solely a legal topic, but also an economic and social one.

Many years ago when I was a young student at the University of Barcelona, well, not so many years ago, just a few, one of my best economic professors would tell the following story: Alfred Marshall, known since the late 19th century as one of the most important figures in the modern history of economics, (for those who are not economists I should tell you that the Cambridge Chair of Economic Theory bears his name, and that noted economists such as John Maynard Keynes have occupied that Chair) had on the wall behind his desk in his office a painting portraying a beggar. When students or even friends came to visit him for the first time, they were surprised to see the picture. Marshall's answer to their surprise was always the same: I have this tramp behind me because he reminds me that the objective that no economist should ever forget is to eradicate poverty.

This anecdote has always been very helpful to me. When I was invited to join the Royal Academy of Economic Science, almost 3 years ago, and just 24 hours after the election, I had already thought about the subject that I wanted to research: eradicating poverty as a goal of any 21st century economist. I would even say that this aim has to be not just a wish and a challenge but also a firm commitment for every modern professional.

I ought to warn you that the other members of the Academy were quite startled by my election, but I can also tell you it was really surprising to learn that among the 40 members who belonged to the Academy no one wanted to talk about this topic.

This brief introduction has only one objective: to spread the word that I think too many of today's professionals, especially those who come from legal, economic and social fields, have forgotten: the most important matter in their lives as human beings has to be the concern and the care of those who live in worse conditions than we do.

Three years ago, for almost a year, I was convinced that the goal to uproot poverty was not only necessary but possible. I don't know if today, the 6th October 2009, I could be as optimistic as I was then. But where there is a will there is a way.

What are the reasons that make me be more pessimistic?

Above all, the crisis the first world is in, and as a consequence of this, the **ways** the different governments can deal with it.

Let's not jump the gun. Let me go back for a moment to something that happened several years ago.

In 1999, Bill Clinton came to Madrid for a conference invited on that occasion by the Del Pino Foundation. Very few Spanish professionals and managers, not more than a hundred, were invited to that event. I was among them. For 45 minutes, the President spoke on the economic and social situation in Africa and the consequences for the First World. I assure

you that for sometime after his speech I wouldn't miss an opportunity to talk to him.

I wanted to know, if it was possible, why he had not been able during his 8-year Presidency, with all the power of the world in his hands, to sort out the problem of poverty or at least to send more funds to the Third World. I can tell you that he was unable to clear up my doubts, or at least his explanations seemed to me absolutely inadequate. They were related to justifications such as he had almost never visited the African continent so he did not know the facts about what was happening there or that he had always thought that the resources arrived in better condition than they did. People can decide for themselves if these reasons were good enough.

At this point, I would like to clarify my vocabulary because I am aware that I'm using different words with the same meanings: words like third world, underdeveloped world, emerging countries and so on. Currently this is changing and for instance many emerging countries don't want to be included in the third world. So, when I am referring to the eradication of poverty all over the world, I am thinking of those countries where most of the population still live on less than one dollar a day. This is the poverty that we are really obliged to fight.

People who speak on these subjects normally tend to provide lots of numbers. I don't want to do that. Figures can be boring and are often of little interest, in some cases even producing an effect quite opposite the speaker's intention. But facts such as that 46% of the population shares 1,5% of global income, or that just 15% of the population controls almost the entire income of the planet, or that 800 million people can not eat regularly, that 1.1 billion people live on less than a dollar a day, and that the 70% of the poorest are women are statistics that have to be known by everybody. They can help all professionals to think more deeply about poverty and to find solutions.

Allow me to offer a brief summary of the four tools that I consider necessary to end poverty in modern times. Then I will explain why I am sure that this current crisis is going to have a main victim: the poorest of the poor.

If we really want to face scarcity, at least four mechanisms are necessary. Sometimes people who study this are prone to think that maybe with micro credits will be enough or in others words, all the problems will be sorted out when access to finance is opened to poor people. Mohamed Yunus is one of the most representative supporters of this idea. On the other hand, people such as Hernando de Soto believe that poverty is based on the lack of legal security in many of poor countries. For others, it appears necessary to develop capitalism with more structures, and with consequences such as more trade, that is to say, to implement the positive effects of globalization in the emerging countries.

There are many of us who believe that these and other instruments are necessary but that there is one which is essential or absolutely basic: I am referring to the role women must play in this process. All women. Not only those coming from the developing countries, but also those who are in rich nations. In fact I strongly believe that these goals will become possible when women hold positions of responsibility in every sphere of economic life, which does not necessarily mean a support to parity laws.

Now then, how is it possible that after living one of the most flourishing periods of growth in history, for me probably the best one, we haven't be able to eliminate misery? This is still worse if we remember that people from rich countries have consumed more than ever and as a consequence of it they have needed cheap labour from abroad, mainly from the Third World. The answer may be found in the study of the loss of values and in the confidence that this period of growth will never end. The

current crisis has come with a strength that no one imagined even while many voices claim to have forecast the crash. What remains beyond doubt, however, is that it is going to be very difficult to get back to the economy that we enjoyed during last decade.

Let us turn now to a brief overview of the different instruments necessary to tackle poverty.

A. GLOBALIZATION

For someone to include Globalization as an instrument necessary to end poverty may sound strange. Whether we like it or not, nowadays only capitalism can help the poorest countries. With all its defects, it has shown us that up to now it has been the best among the worst. Let's give ourselves a break, this happens also with democracy. Even if democracy has many limitations, what is true is that no other system has been able to help societies in the same measure. Even if capitalism has been badly used by many people and for a long time, what is true is that through it economies have obtained the best degrees of growth, development, safety...in a World Welfare State. To quote Jean Francois Revel "only democracy and the market have the keys to overcome under development."

Globalization is the latest step of capitalism. This word, used in 1985 for the first time by Theodore Levitt in *The Globalization of Markets*, is so over-extended that we all use it for every thing, many times without being fully aware of its real meaning. Globalization has to be understood to describe changes in modern societies and in the global economy. Its goal has to be to provide expansion in both international trading and cultural areas.

I can't dwell on globalization here but it is interesting to note that the best effects of globalization have taken place in the emerging economies

while the worst ones have appeared in the poorest countries where the deficit in technology has increased the differences.

B. LEGAL SECURITY

There are ever more voices that consider this instrument at least as important as finance. The most important element would be property because it acts as a key enabler. Property has so many distinct functions that many times we underestimate its importance: with property you can obtain mortgage loans, guaranties and many other things. In the US, a property title can almost carry out 100 functions. We have to respect possessions. In this area, rich people take advantage of property rights while poor people have never known what it meant. There is a saying that many properties that belong to poor people only become publicly known when watch dogs bark if an owner is threatened. So it is urgent to secure these properties. In Peru, for example, one plot can have more than 20 owners. In that case, the problem is not the lack of titles but the lack of legally sound titles.

What is necessary is that the title represent a good economic value. And how can you quantify that? Through its power of diffusion and its ease of use as a guaranty. In others words, it is necessary that property titles can be easily executed and enforced.

An example that I always like to mention happened when Telefonica, almost 20 years ago, bought Telefónica Peru. In the stock market in Lima the value for the whole company was then around 3 million dollars. But even with this bargain price there were no buyers because shares did not exist. The Government invested more than 30 million dollars to obtain good titles. The acquisition process lasted 3 years. When Telefónica Spain subsequently bought the firm, it paid 2000 million dollars, or 37 times the

original estimated price of 53 million. This case helps to confirm that without legal safety, prices are everywhere low. But the problem is still a huge one because without title you can not transfer a possession.

We can demonstrate this in the development of the first world starting in the Middle Ages. When people realized that trading was essential, the commercial laws began to take shape and contracts became an engine of growth. First world experience has taught us that property has an important value regardless of its amount. Legal security represents a the starting point, on the foundation of law, which becomes the foundation of growth.

Many countries, I shall stress Egypt for instance, have understood the importance of legality and have begun to set up these aspects: according to the studies elaborated by the Freedom and Democracy Institute, poor people could have accumulated assets in that country of around 250 billion dollars. This amount represents 55 times the foreign investment or 70 times all the funds coming from abroad or 35 times the value of the Egyptian stock market. But not all these properties are useful for the simple reason that titles do not exist. According to the Institute, the value of all property of poor people in the world could be around 10 thousand trillion dollars. This may or may not be exaggerated. What is essential here is to be aware of the vital role of legal security all over the world.

Comentario [A1]: Is this Number correct? Or is it just 10 trillion???

We must move on, but not before registering our surprise that even while they know the importance of legality, the different governments of the first world, the World Bank or the IMF don't respond to this issue. The answer may be found in the corruption that isolates many of these countries. In the end, corruption is nothing but buying the law.

C. MICROFINANCE

This may be the best known mechanism. But this Bar forum may not be the most appropriate place to address it, so I will just touch on a few aspects.

Micro credits have proven to everybody that they are very useful everywhere. They have taught what capitalism already knew a long time ago: that a society can't grow if its economy is not well financed. Today, many economists affirm that there is a very clear link between the speed of economic growth and several indicators of the financial system. Among those the most important one is size.

At present more than 900 institutions are giving out loans...and the average value is around 200 dollars. But what is more interesting is that the rate of paying back is nearly 95%. And I like to emphasize that this is higher among women than men. There are probably several reasons why women are paying back money better and faster than men. But I think that the main one lies in a psychological field and in the interest of women in the protection of family.

Unfortunately, we don't have enough time to talk about Yunus or his predecessor Elia Bhat. But I will tell you that this economist coming from Pakistan understood very early that societies were not able to grow if they were not well funded. With that insight, he began to implement in a little village near Bangladesh what he had learned at university in the States. It is quite amazing to see the parallelism between him and Alfred Marshall 100 years ago! In Yunus' words "poor people taught me a completely new economy."

Some have criticized micro credits by alleging that they are a way to make money out of poverty. But what is really true is that through them many people have been able to live in much better life conditions.

D. THE ROLE OF WOMEN

To include women as an instrument to uproot poverty may sound a little bit strong. I don't mind! This is a subject in which I am absolutely convinced that women have sensitivity unknown in men. I don't want to generalize, that is always dangerous thing to do. But statistic's have shown, as I mentioned before, that women are much better payers.

In any case, I don't want to give a feminist speech. But the position of women in the first world with the attendant responsibility to eradicate poverty is going to be among the main keys.

Even if there is a big gap to bridge the goals established by the United Nations to stamp out poverty, what is true is that we are living with levels of solidarity unknown until few decades ago. Quite probably this would not have been possible if women hadn't reached important levels of duties in the industrialized countries. A clear example of this: the most important foundation in the world today is of course the Gates Foundation with more than 35 billion dollars in assets. It was set up as a consequence of the dream, the project and the reality of a woman: Melinda Gates. I always like to say that most likely Bill Gates will be more known in the next centuries for his efforts to eradicate malaria than for being the founder of Microsoft.

Another example would be the creation of the Women's World Banking in 1975 in New York. Its aim is to help women gain access to the economic system, primarily to bank loans. Today, the WWB is located in more than fifty countries.

Women are probably more democratic when they manage companies because they trust in people to increase profitability. They have a more flexible and tolerant attitude in managing and are more successful in getting rid of the aggressivity.

Thanks to women, today we can speak about ethical financing. This system which is still small, but growing every day, has an objective: to

channel funds from solidarity savers into solidarity investments and the way is through ethical committees and with selected auditing companies.

Pope John Paul used to say, in his *Letter to all women*, that “the economy needed the feminine genius to build political and economical structures full of humanity.”

CRISIS AND POVERTY

But what is happening today? Why can we affirm that this crisis, for many the deepest in all the economic cycles studied up to now, even if the IMF stated last week that the recession was over, has hit the poor more than anybody else?

The answer has to be found in many fields, but basically lies in the reduction to levels of 20 years ago of funding for many projects, especially donations to the World Food Program. This institution, dependent on the United Nations, with less than 1% injected by governments through their own financial systems, would have been enough to end famine in the world. Once again I don't know if these statistics are exaggerated. It doesn't matter if the real percentage is 1, 5 or 10 per cent. It shows us that hunger can be overcome. But this is not happening. The latest figures tell us that in 2009 only 2600 million dollars have so far arrived at the mentioned program, when the budget for this year was around 7000 million dollars.

To address the shortfall, it would be necessary for the G20, where many emerging countries are already replaced and that is itself going to replace the G8, to adopt famine as one of its priorities.

In the legal field, the problem seems to me quite similar because all the processes necessary to grant security to property rights need lots of money, as we saw in the case of Peru. Unhappily, I don't think that at present governments or institutions are willing to do it.

And don't forget that even if we too often criticize capitalist managers, the truth is that through them and their solidarity many projects have been accomplished. The root of the current problem is that because they have lost money mainly in stock market crashes and in real estate, it is going to be very difficult to raise the funds they once did. And remember, once again, that many institutions located in the Third World have survived because of them. A recent Forbes list showed us that the "Top Ten" lost around 20% in assets last year, that means around 200 billion euros.

Unfortunately the problem is still worse because food is now more expensive. In the first world, prices are lower because of deflation while for poor nations prices have risen higher.

It saddens me to say that while I am normally quite optimistic, in this case the future for poor nations seems to me quite "dark." In fact, if poverty has increased in the first world because of this crisis, if governments have raised their deficits to fight the recession and if only time will tell whether these efforts will be repaid, with all this happening, it means that the last thought of democracies that depend on votes will be to provide resources to the third world or to end poverty in general. But I would like to quote Adam Smith, the first economist of the modern age, who wrote "no society can surely be flourishing and happy of which the far greater part of the members are poor and miserable." We must realize that if poverty not only persists but increases in the coming years, the world will surely be involved in conflict and war, as happened so often in times past.

I do not want to finish my presentation with such a pessimistic point of view. I'd rather prefer to think of the words of Jeffrey Sachs for whom the eradication of poverty must not be just a wish and a challenge but also a fact for every modern lawyer and economist.

I would like to close my presentation, in this perfect setting, in this marvellous town where several centuries ago lived the most distinguished Spanish man of all time, by recalling the very words of Don Quixote “también los pobres virtuosos y discretos tienen quien les siga, honre y ampare.” For the poor, who are virtuous and discreet, will always find people to honour, attend and support them.

Thank you very much