

# Progress, Inequality, Poverty, and Well-Being

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It deserves to be remarked, perhaps, that it is the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of society. The stationary state is dull, the declining melancholy.

Adam Smith: *The Wealth of Nations*

Before we can feel much for others, we must in some measure be at ease ourselves. If our own misery pinches us very severely, we have no leisure to attend to that of our neighbour.

Adam Smith: *The Theory of Moral Sentiments*

A decent provision for the poor is the true test of civilisation.

Samuel Johnson (in James Boswell, *Life of Johnson*)

So living standards are to some extent like alcohol or drugs. Once you have a certain new experience, you need to keep on having more of it if you want to sustain your happiness. You are in fact on a kind of treadmill, a "hedonic" treadmill, where you have to keep running in order that your happiness stand still.

Richard Layard: *Happiness: Lessons from a New Science*

I had to struggle for quite a while to decide about the topic most appropriate for the "Akhter Hameed Khan Memorial Lecture". I settled on a set of ideas that may sound somewhat abstract and esoteric, but I think they are not. For one thing, I can say in my defence that Akhter Hameed Khan would have approved my choice. A second reason is that I have far less confidence in speaking about the practical aspects of rural development in Pakistan in which the rural support programmes have been playing a leading role in partnership with the rural communities for over 25 years. Finally, I think occasionally we all need to take time off from the mundane concerns of everyday life and reflect on issues for which we normally have almost no time or patience, though they tend to define who we are as individuals and societies.

Ideas have power. One such powerful idea in human history is the idea of *progress*. At its simplest level, progress means moving forward. It implies

improvement, both in the material and moral conditions, from a presumed inferior to superior state of existence. Progress has been considered both necessary and desirable, and in the opinion of some inevitable. Humankind has advanced from some primitive (aboriginal) state and is advancing and will continue to advance. Admittedly progress has not been a linear and continuous process of positive change; there have been serious, even awful, regresses on account of race, ethnicity, religion, ideology, and plunder. We can see many signs of material improvement, but we continue to debate about the moral improvement. There are those who see an inverse relationship between the material and moral conditions: technical advancement and moral decay. I tend to agree—I may be sticking my neck out here—with those who think that humankind *has* made moral improvement as well. There is good evidence on both sides, but perhaps less on the side of the doubters. Generally we do not now tolerate, much less accept, torture, slavery, denial of equal rights across the board, and arbitrary rule by the divine or any other authority. There remains that moral sensibility to differentiate between what is and what ought to be, notwithstanding the tension between the life here and the afterlife.

The problem is that while we can verify the change in material conditions—there are too many pieces of evidence to deny or doubt—it is hard to agree about the change in moral conditions. What are the essential ingredients of morality on which most people can agree irrespective of their cultural context or intellectual perspective? Morality means those principles of behaviour about right and wrong (or good and bad) that allow people to flourish. In other words, we should think of morality in terms of well-being. What we consider as moral (virtuous) attitudes and conduct are of concern to individuals. Honesty, fairness, and loyalty to family and friends are on everyone's list; religion, sex, and drugs (alcohol included) are considered by some as optional. The essential ingredients of individual morality are necessary though not sufficient to make a society moral. The moral character of a society is judged by the yardsticks set by the Enlightenment thinkers: they include tolerance, openness, fairness, and democracy. The scourge of discrimination, based on race, caste, ethnicity, religion, gender, or lifestyle, is still with us. In some places, some form of discrimination is morally accepted and legally sanctioned. Discrimination tends to be more visible and acute in societies with sharp inequalities and in almost all societies during periods of economic stagnation. But I plead with you to compare the present state with the past, even our recent past. Romanticising the past with misplaced nostalgia, though possibly cathartic, is a bit delusional.

I think there is consensus that from the beginning human beings have been struggling quite tenaciously to improve the quality of their lives. But let me add that human beings have not been in search of a *utopia* (in Greek it means 'no place'), an imagined perfect place about which you find much in the writings of Plato, Thomas More and Karl Marx. Instead they have been trying to make their lives a bit better and their nature a little more perfect. Human beings

are endowed by nature with both the will and capability for progress. The idea of family—which is the basic unit of a society—was probably the first step in that struggle. Living in groups was one of the earliest and most important inventions of humankind. So the idea of society, and its associated social and economic structure, is not an artificial construct. Society is both necessary and more than the sum of individuals. Individuals could not have survived for too long without deep interdependence, starting at infancy. There is good scientific evidence that an individual's selfhood is created by the initial attachment to another individual, such as infant's attachment to the mother. In this perspective, society creates individuals and not the other way round. Self is realised through relationships, but everyone's self is unique though not immutable. In fact, the slogan of *liberty, equality and fraternity* in the French Revolution focused attention on those dimensions of social relations which matter most to make a better society and improve the quality of lives.

Why and how do societies diverge with respect to progress? There is no generally accepted grand theory or explanation of what forces (or factors) cause or are essentially responsible for social and economic progress. A close examination of the history of progress sheds much light on one theme more than any other: application of gradually accumulated knowledge (in the arts and sciences) to cope with the problems that nature and social relations have presented. Inventions and innovations—reflecting human ingenuity and capital—have been at the heart of the process of progress. However, we also know that knowledge and its application to technologies gained unprecedented momentum only in the last 250 years or so, and it was either preceded or accompanied by deep institutional and structural changes in some Western societies.

Religious, political and economic freedoms, buttressed by the Enlightenment ideas, were probably the major forces underpinning the creation and dissemination of technologies and the experience of unprecedented economic growth. I am not underestimating the role of modern slavery and imperialism in the accumulation of capital and economic growth. But there is also good evidence that the first Industrial Revolution could not have been initiated and sustained by slavery and imperialism. Slavery and imperialism existed for millennia without creating the conditions for an industrial revolution.

The unprecedented and cumulative process of economic growth, and the associated increase in the average standard of living, has been achieved by the production and dissemination of knowledge (inventions and innovations), accumulation of financial capital, and expansion of markets (trade) through specialisation. These ingredients of growth have been induced and nurtured by values, institutions and laws focusing on the well-being of both the individual and society (or the public good). The values of tolerance, openness, fairness, and democracy have been promoted generally by the experience of sustained economic growth over a long period of time. Economic growth is not a bargain (trade-off) between the material and moral conditions: diffused and inclusive

growth can expand choices and opportunities, reduce absolute poverty, make the society more fair, equal, open, and tolerant. However, it is also important to note that certain consequences of economic growth are seriously questioned on moral grounds, for example, resource degradation, environmental pollution, extinction of species, inequalities, social disruption (erosion of community life), hedonic consumerism, and perhaps narcissism.

What is good about growth? Is growth not the ideology of the cancer cell? Economic growth has no intrinsic but only instrumental value: it serves as an important means to improve people's well-being (good and decent life). I am not sure if a high level of income or standard of living, enabled by long-term economic growth, is sufficient (or even necessary as some might say) for happiness. Happiness—that unknowable quantity—is never easy to define, but it tends to include: good family bonds, personal friendships, sense of belonging to a community, purposeful work and healthy work environment, religious or spiritual attachment, enjoyable leisure, decent health and education, sense of security, and personal freedom. Maybe a higher (than lower) level of income facilitates happiness as a necessary condition, but then it depends on the circumstances. Comparisons among people living in industrialised countries tend to show that the quality of life (or the quality and meaning of relationships)—I do not want to use that elusive concept called happiness—depends more on the distribution of income and wealth than on the average standard of living. For example, compare the conditions in the United States, United Kingdom and Portugal with those in the Scandinavian countries, Japan and Canada.

The historical experience of economic growth and its beneficent consequences has shown quite clearly that neither the unfettered private markets nor the ubiquitous state control work well for our material and moral progress. The recent meltdown precipitated by the unregulated (so-called free) financial markets—buttressed by the myth that markets are rational—and collapse of the centrally planned (controlled) economies are good examples of the two follies. Societies have to find the right balance between the roles of private markets and the state. What that right balance is—does anyone know the meaning of right balance?—depends on a host of factors, including the state of development, structure of the economy and the social and political conditions. Generally speaking, production of private goods should be left to the marketplace and the state should maintain a level playing field for the private sector participants, enabling them to operate efficiently; invest in and provide public goods (education and health care); control and regulate the public bads (degradation of resources and environmental pollution); and provide safety nets and support to the disadvantaged. The important point here is that *a more equal and fair society is good for everyone* and it depends on, among other things, the balance between the private and public domains.

The knowledge accumulated in evolutionary biology and psychology about human nature—human body is a kluge (kludge) and the mind predictably irrational—is that it consists of many sentiments affected by both

nature and nurture. In our context the relevant sentiments are: self-interest, avarice, envy, empathy, trust, and fairness. The first three are perhaps needed for the individual's survival in the face of scarcity and the other three are necessary for social cohesion. Another related, and well tested, aspect of human nature is that people tend to put greater weight on losses than gains. It is also well known that most people look at their own position in the absolute (and the change in recent past) and, perhaps more importantly, their position relative to others (and the change in it over time). The impulse for emulation of positional (status) goods is quite strong with consequences of dubious value. It is, therefore, important for us to understand both the difference and links between absolute and relative poverty: the former tends to hurt the individual more than it hurts others, but the latter hurts everyone in the society.

The links between poverty, economic growth, and income distribution have been studied quite extensively in recent literature on economic development. Absolute poverty can be alleviated if at least two conditions are met. First, economic growth occurs—or the mean income rises—on a sustained basis. Second, economic growth is either neutral to income distribution or reduces income inequality. Poverty cannot be reduced if economic growth does not occur, i.e. the economy stagnates; poverty tends to change in the same direction as the mean income. In fact, persistent poverty of a substantial portion of the population can dampen the prospects for economic growth. Several arguments have been made in support of this proposition. The major factors include inadequate ownership of physical assets, hence poor access to credit, and low levels of human capital (education and health). Also, the initial distribution of income (and wealth) can greatly affect the prospects for growth and alleviation of mass poverty. There are good theoretical reasons and empirical evidence to suggest that large income inequality is not good for either poverty reduction or economic growth. Current experience with economic growth shows that if countries put in place incentive structures and complementary investments to ensure that better health and education lead to higher incomes the poor will benefit doubly through increased current consumption and higher future incomes.

If we examine more closely, inequality plays a major role in determining the level of absolute poverty and the average quality of life. Economic stagnation would probably be worse than inequality for reducing poverty. Some have suggested that economic growth can be a substitute for inequality of income: so long as there is growth there is hope, and that makes large income differentials tolerable. But if there is more equality it makes growth less necessary. There are at least three contexts in which inequality matters: rights, opportunities and outcomes. These three are intertwined with a feedback loop. There is no society in which any of these three is or can be equally distributed since all societies are imperfect. However, societies do differ in terms of the degree of inequality. The inequality in individual rights is generally a reflection of some deep-seated values and institutions. In societies where we do find relative

equality of rights, it does not necessarily translate into greater equality of access to opportunities. The access to opportunities depends not only on the social status of the individual but also on investment in human capital, market structures, and public policy. The socially excluded people are often also the individuals who find themselves with little access to opportunities. The inequality in outcomes (income and wealth) follows from the inequalities in social status and access to opportunities. Recent studies have shown that one-quarter to one-half of the differences in consumption are due to inequalities of opportunity.

All forms of inequalities are embedded in a society's history, but they also reflect the existing social and economic structure, nature of economic growth, and public policy. The vicious circle cannot be broken without an activist state playing its role in reducing the inequalities with respect to rights, opportunities and outcomes. The only question is that, in societies which are rigidly hierarchical with extreme inequalities, who can (or will) bell the cat? The corrosive effects of inequality appear in many different forms: it reduces the two basic glues, empathy and trust, that bind people together; promotes divisiveness; solidifies a hierarchical and unfair social structure; and decreases the chances for upward mobility. Where there are greater inequalities of outcomes (income and wealth), equal opportunity is a significantly distant prospect. As I have stated earlier, the quality of life in a society, given its average standard of living, is greatly influenced by how unequally the rights, opportunities and outcomes (income and wealth) are distributed.

Absolute poverty is not only a state of existence but also a process with many dimensions and complexities. It is almost always characterised by high levels of (i) deprivation (dispossession), (ii) vulnerability (high risk and low capacity to cope), and (iii) powerlessness. These characteristics form the core of inadequate well-being. Poverty can be persistent (chronic) or transient, but the latter if acute can turn into a trans-generational trap. Consequently, the world of the poor is diverse both in space and time. The poor adopt all kinds of strategies to mitigate and cope with their poverty. In understanding poverty and the poor, it is essential to examine the context of the economy and society, including institutions of the state, markets, communities, and households (families). Poverty differences cut across gender, ethnicity, age, residence (rural versus urban), and income source. At the household level, often children and women suffer more than the adult males. In the community, minority ethnic or religious groups suffer more than the majority groups, the rural poor more than the urban poor; among the rural poor, the landless wage workers suffer more than small landowners or tenants. These differences among the poor reflect highly complex interactions of cultures, markets, and public policies.

At its root poverty means *deprivation* (denial or lack) of things considered essential (valuable) for a decent life; feelings of shame and low status associated with poverty are arguably bad for health. Defined this way, poverty encompasses many different kinds and forms of deprivation: its manifestation

can range from material deprivation (income-poverty) to capability deprivation (lack or denial of freedom to enjoy things one values). We know that a person who is materially poor—deprived of the basic necessities of life—is also deprived of many freedoms that a non-poor person can and does enjoy. But a person who is not materially deprived can also be deprived of freedoms to enjoy things that he or she values. It seems to me that, if there is any purpose to life, it is to enjoy freedoms to pursue according to one's capabilities those things that one values: the purpose of living is to enrich life. A multidimensional view of poverty includes the issues of individual rights and social justice.

A search for the underlying causes of material poverty takes us to the social and economic structure, constituting a complex web of relationships and institutions, and its functioning in a society. The social and economic components are intertwined and tend to reinforce each other. A rigidly segregated and hierarchical society, with high concentration of wealth and income, is conducive to persistent deprivation of both material things and capabilities. It is also a society in which it is difficult to develop the conditions by which new wealth and income can be created. It follows that to create new wealth and income (or generate sustainable economic growth) the existing social and economic structure must change. It is important, however, to caution that economic growth in itself is necessary but not sufficient to alleviate deprivation or poverty.

Powerlessness is one of the most important manifestations of poverty, but it is not limited to those individuals or groups who are materially poor. It also reflects social exclusion, based on caste and gender, found endemic in a rigidly segregated and hierarchical social structure. One does not have to be materially poor to be powerless. But we do find that those groups or individuals excluded from access to opportunities, because of their gender, class or caste, are not coincidentally also materially poor. If we dig deeper in search of the causes of poverty, a major culprit is inequality. As I have stated earlier, the conundrum to solve is the following: given a highly unequal and hierarchical society, where a large proportion of the people are poor (in its broadest sense), who will bring about and how the necessary change in institutions and laws that can spark an inclusive and sustainable process of growth? How do we expect the powerful groups, who benefit the most from the *status quo*, to lead or even accept deep institutional and structural change in the existing social and economic order?

History tells us that a society can take various routes to progress. We know that it cannot and will not stand still: it is against the natural law. It is also well known that a stagnant social structure will tend to create pressures, both internal and external, for change. If the society takes this route, change will be costly and even violent without necessarily producing desirable outcomes. The other route is one in which some, if not many, of the elite, supported by the populace, may reluctantly if not willingly undertake institutional reforms and adopt public policies which enhance the chances for ordinary people to get access to

opportunities. A positive outcome is less likely if the society takes the first route and not the second. But no matter which route the society takes, the process of change is neither short nor painless (costless).

Well-being, according to the Oxford English Dictionary, is “the state of being comfortable, healthy, or happy.” Put it another way. It is about “positive states of being to which we can aspire.” Generally, we do not like loneliness, helplessness and poverty. “We long for good friends, basic control on our life and enough money to meet our needs.” People use income and goods as the material basis for their well-being. Transformation of income into well-being depends on a number of personal and social factors: for example, differences between individuals and their needs based on age, gender and health; differences in the physical environment (climate, pollution); differences in the social environment (social capital, public goods, crime and violence); differences of perspectives and customs (self-image and valuation by others); and differences between members (men and women, young and old) within the family or the intra-family distribution of income. So the level of real income is a limited guide to the well-being or quality of life of an individual. *The emphasis has to be not on the bundle of commodities but on the converted freedoms for the individual to choose a life he or she has reason to value.*

The basic question for the society is this: how to facilitate people to (1) get access to equal opportunities to benefit from the process of economic growth and (2) convert the earned income and goods into a better (more comfortable) life? The benefit in terms of income (or goods), as stated earlier, would depend on the initial endowments, market structure, and public policy. If the process of economic growth is inclusive then the chances for most people to benefit are reasonably good. The next, and more important, part is the conversion of income and goods into well-being. It would depend first on the circumstances of the individual and his or her capabilities. But the enabling social environment seems to play a more important role: political institutions and public policy assume a crucial role. We know from experience that even the economically advanced societies differ a great deal in terms of their preferences between private and public goods. Ideology and culture matter. One society may allow far more space to choices through private markets and tolerate greater inequality of outcomes than another society which may prefer greater equality of outcomes with an activist state. The evidence seems to be that the well-being of people is better served in the latter society even if the average standard of living is not as high as in the former.

A very important aspect of economic growth, as a means to improve the quality life, is its demand on the finite (renewable and non-renewable) resources and their quality on which depends the well-being of people now and, more importantly, in the future. Put it in a question form. How *sustainable* is the process by which humankind can hope to enhance its well-being? It is in this context that the degradation of natural resources (desertification, deforestation, shrinking wet lands), decline of biodiversity, and environmental pollution (global

warming, climate change) assume a central place in the drama of progress. There is abundant evidence that humankind, in its quest for material progress at least in the last 100 years, has inflicted much damage on the natural capital and the environment. We cannot defy the second law of thermodynamics, the law of entropy. The rising entropy deficit, almost all of it a product of global economic growth, if not mitigated effectively, can (and will) have dire consequences for the planet. But there are few signs so far of serious social and economic adjustments by which the process of growth and development can become sustainable. The test of sustainability is "*to ensure that current growth meets the needs of the present without compromising the ability of future generations to meet their own needs.*"

The unremitting pressure of economic growth on natural resources and the environment is bad enough in terms of its (unethically) negative effects on the well-being of people both now and in the future. Inequalities within and between countries and persistent poverty in many countries are also major contributors to the problems of resource degradation and environmental pollution. There is good evidence that a high average standard of living together with low inequalities can unleash the necessary political will to make significant lifestyle adjustments. The role of public policy (political arrangements) is central to inducing people and institutions to change their behaviour to mitigate negative externalities. The problem of externalities, with respect to the effects of growth on natural resources and the environment, is far more serious at the global level given the differences among countries, hence a lack of consensus about appropriate approaches to address the issues earnestly. In the meantime, the well-being of people living today is being compromised and that of the future generations threatened.

But if history is any guide, the chances are good that humankind will rise up to this challenge for survival and progress. There is increasing realisation that we are part of Nature too and our quest for progress will come to a very sorry end sooner than later if we do not radically change our perverse behaviour in relationship to the biosphere of the planet. Maybe this sounds too optimistic and a bit naïve, but this hope is what has kept progress, with warts and all, going so far.

Another issue of global concern for the well-being of people is the effect of economic interdependence—*globalisation* in popular jargon—which has been rising rapidly in the last at least fifty years, reflected by the relatively free trade in goods and services, transfer of capital, technology and information, and movement of labour across national frontiers. The evidence is that this interdependence tends to promote economic growth across the board. But it can also increase economic instability, transmit recessions, and increase rather than reduce the inter- and intra-country inequalities of income and wealth. The diversity of nations with regard to their state of development, and the relatively dominant economic position of some countries, particularly through their global corporations as investors and traders, has serious implications for the well-being

of both producers and consumers in the majority of countries where the process of development has started only recently. So far the nation-states have found no easy way to accommodate the social and economic needs of the diverse (rich and poor) populations. The recent financial meltdown and its toxic effects on the economic and social well-being of ordinary and not so ordinary people have been felt globally. The good thing is that the voices demanding protection and exclusion, buttressed by rhetoric, have been muted and the national and international institutions are rallying around the idea of mutual understanding and help. So far neither the more developed nor the less developed countries have adopted a beggar-thy-neighbour policy.

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