# The End of Poverty: A Book Review

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**The End of Poverty: How We Can Make It Happen in Our Lifetime** by Jeffrey D. Sachs, U.S.A.: Penguin Books, 2005.

This book provides a model of the global economy. It attempts to explain why wealth and poverty have differed and evolved and why the poorest nations have not escaped the poverty trap. The author - Jeffrey Sachs - distinguishes between forms of poverty. Extreme poverty means that households cannot meet basic needs for survival - lacking food, water, sanitation, health care, shelter, education, and clothing, among others. Extreme poverty is primarily found in the developing countries of Africa and Asia where crippling debts, recurrent wars, overwhelming diseases and devastating natural disasters have left millions suffering. He notes that lack of savings, absence of trade, technological reversal, natural resource decline, adverse productivity shock, and population growth could lead to a reduction of household income per capita. The poverty trap itself, physical geography, fiscal trap, governance failures, cultural barriers, geopolitics, lack of innovation, and the demographic trap are among the reasons why at the macro-level countries fail to achieve economic growth. (Based on the book, the Philippines achieved negative economic growth from 1980 to 2000) According to Sachs, food productivity seems to be the most important determinant why some poor countries grew and others declined.

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Sachs speaks of his own experiences as a "clinical economist" in Bolivia, Poland, Russia, India, China and Africa. He believes that countries differ in terms of geography, history and culture. Thus there should be differential diagnoses and treatments. Like hospital patients, every nation has its own medical history, and the economist should, like a doctor, assess each country's individual needs based on particular circumstances. What works in one country will not necessarily work in another. There is no one size that fits all. Sachs emphasizes, however, that the extreme poor lack six major kinds of capital: human capital, business capital, infrastructure, natural capital, public institutional capital and knowledge capital. Thus private and public investments in these are crucial.

The author predicts that world poverty would end if each nation in the First World donated (by way of foreign aid or official development assistance) 0.7 percent of GNP or national income to the developing world, as recommended by the United Nations. A timetable is suggested for ending extreme poverty, that is, by 2025, with the Millennium Development Goals as a midpoint in 2015, to wit:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

The author argues that every economy has to start somewhere and cites Bangladesh where the "sweatshops" have somehow empowered women. The low-skilled jobs generated by global sourcing in garment manufacturing have enabled Bangladeshi women (and society) to gain a foothold on the ladder of development. India, depicted as the center of an export services revolution, on the other hand, is already several steps up the ladder of development. According to Sachs, India's information technology (IT) revolution (no doubt influenced by global sourcing) is creating jobs and fueling a growth rate of about 6 percent per year. He notes that Africa' problems are caused by economic isolation since it is a continent largely bypassed by the forces of globalization. Foreign direct investments and open trade have been correlated with rising incomes as the experience of China seems to suggest.

The book reintroduces us to macro- and micro-economics, apart from delving into approaches to ending poverty. In the Philippines, how have we fared in reducing poverty? The Comprehensive and Integrated Delivery of Social Services (CIDSS) Report on Highlights of Implementation for 1994-1996 revealed that the indicators of the top ten unmet minimum basic needs (MBNs) were:

- inadequate income
- no access to potable water within 250 meters
- no access to sanitary toilets
- other family members, 18 years old and above, unemployed
- head of the family unemployed
- lack of family involvement in, at least, 1 legitimate people's organization/ association for community development
- children 3-5 years old needing day care/preschool services
- housing not durable for at least five years
- severely and moderately underweight children under 5 years old
- couples not practicing family planning in the last 6 months

Economic self-sufficiency as indicated by low income and unemployment was therefore a major problem in the two time periods.

Poverty incidence in the Philippines, or the proportion of poor families to total number of families, remains significant. It rose from 31.8% in 1997 to 33.7% in 2000. Poor families have an annual per capita income below the annual per capita poverty threshold. The annual per capita poverty threshold in 2000 was ₱13,823.

Notably, the informal sector is growing. As of April 1999, 52% of the total employed was in the informal sector, according to the Department of Labor and Employment (DOLE). The informal sector is usually beyond the reach of social welfare legislation, which means that more workers are not covered and thus vulnerable. The Philippine government's current approach to social protection is "occupational," that is, coverage is based on earnings derived from occupation. In Europe, a different approach to social protection is used by some countries. This other approach is "universal" in character since coverage is based on residence and age, rather than occupation.

DOLE's Bureau of Labor and Employment Statistics (BLES) reported that in January 2004 the services sector accounted for about 48% of employed persons in the Philippines. The preponderance of low-productivity, low-paying jobs in the services sector, however, underlies doubts about the quality of employment generated. The rise in underemployment in recent years came from the services sector and the extent of underemployment is a measure of the severity of the lack of jobs, which makes workers accept shorter working hours or low-paying jobs instead of open unemployment.

Non-regular, temporary and peripheral workers are increasing in number. Work is temporary if time-bound and peripheral if indirectly related to the employer's main business. BLES reported that as of June 30, 2003, contractor/agency-hired workers and non-regular staff comprised 10.8% and 25%, respectively, of total employment in establishments with 20 or more workers.

The number of establishments resorting to permanent closure/retrenchment due to economic reasons rose from 2,859 in 2001 to 3,403 in 2002 while the number of displaced workers went up from 71,864 to 80,091, an indication that more regular jobs have been lost. Significantly, in terms of labor turnover, separation rate was higher than accession rate in the first and second quarters of 2002 for the construction, hotel and restaurant, and financial intermediation industries.

There appears to be a bright spot, however, in the Philippine services sector.

The Department of Trade and Industry (DTI) reported that Philippine call centers have been more than doubling every year since 2001. A call center is a communications platform from which firms deliver services to customers via remote, real-time contact. There were 3,500 seats which grew to 7,500 seats in year 2002 and 20,000 seats in year 2003. In 2004, the number of seats was estimated at 40,000.

Call center clients include mail-order catalog houses, telemarketing companies, computer product help desks, banks, financial service and insurance groups, transportation and computer handling firms, hotels and IT companies. The size of an operation is described in terms of the number of "seats," and a seat consists of a station with two or three people alternating in different shifts to provide 24-hour service. Target markets include the United States, Australia, and the United Kingdom.

Among known call center hubs in the Philippines are Eastwood City Cyber Park in Libis, Quezon City, RCBC Plaza IT Park and PBCom Tower in Makati City, and Fort Bonifacio E-Square IT Park in Global City.

Key factors have been identified why the Philippines is becoming Asia's call center hub:

- Affordable Quality Human Resource. (Skilled labor force of 29 million, Literacy rate of 94%, 3rd largest English speaking nation, 380,000 graduates/year, Western-patterned educational system, Strong work ethic compared to India, consultative/customer-oriented mind set, Quality management staff, Easily trainable, Low attrition rate, Lower costs compared to Australia: approximately one-fifth the cost of the US and Europe)
- Affinity to Western Culture. (World-class English proficiency compared to China, Similar form of government structure, US GAAP adopted Accounting Systems, Legal system/ contracts similarity, Same media sources, Strong familiarity with Western culture yet open and easily adaptable to other cultures)
- Strategic Location. (Located in the fastest growing outpost of high-tech economy, Gateway of international shipping and airlines [FEDEX, UPS, etc.], Critical entry point to over 500 million ASEAN market, Accessible by air within four hours from any Asian capital [Japan, Korea, Singapore, Taiwan])
- Hospitable Lifestyle. (Expatriates' top choice for quality of life, Friendly people, Value-for-money housing, Modern recreational facilities, First- rate educational institutions [International schools: British School, German school, Japanese school, Mandarin school, etc.])

Hiring rate is between 3% and 5% of applicants. In order to meet the demand, call centers hire old and fresh college graduates, even college students and plain high school graduates. Estimates show the industry hiring about 3,000 agents per month. To maintain a 100% growth rate in 2005, the industry must hire at least 60,000 new agents.

However, there are governance issues or concerns.

Call center companies seeking exemption from the night work prohibition affecting women employees were granted exemption by the Secretary of Labor after visiting the requesting call center companies.

DOLE's Bureau of Working Conditions (BWC) through Administrative Order No. 210 s. 2002 was tasked to meet with call center companies to discuss labor issues concerning call center operations. In September 2002, the consultation with management representatives from ten (10) call center companies was held. The workers' views/concerns on the night work prohibition were gathered through on-site interviews, which were held from February 5 to 11, 2003.

The outcome of the consultation and interviews was a Final Report, which contained the following conclusions/ recommendations:

- Regular night work has negative effects on the health, social and family life of workers whether male or female. Sex plays no role, thus there is no justification for protecting only women except as to their reproductive function.
- Night work for women may be allowed to avoid discrimination against men. It should still be disallowed for pregnant and nursing mothers and those engaged in strenuous activities.
- Future legislation should diminish the ill effects of night work on women and men. If night work is unavoidable, workers should be compensated more in terms of social, monetary and health protection.
- The ILO Conventions on Women's Night Work have been widely denounced in the light of increasing globalization and growing acceptance of the principle of equality between the sexes.

- Because of the constitutional mandate for equal work opportunities, there is a need to review Articles 130 to 131 of the Labor Code. While a Bill on the repeal of said Articles is pending in Congress, expanding the exemptions to allow night work in non-strenuous activities seems more appropriate.
- The consultations show favorable conditions of work for women in night work, in terms of security of tenure, monetary compensation and provision of fringe benefits. However, mandatory benefits like paternity leave are not granted according to majority of the respondents.
- To alleviate the rigors of night work, employers should be urged to give additional benefits. Mandatory benefits should be strictly implemented and monitored.
- Holiday swap or compensatory day off should be disallowed, but mandatory benefits such as premium pay and holiday pay must be given.
- The workhours adopted by respondents deviate from the typical shifts in other industries. A considerable percentage of workers renders more than 8 hours of work, apart from rest day work.
- Workhours of those in night shift should be limited to 8 hours a day. Rest day should be strictly enforced. Future legislation should limit weekly workhours to 40 hours.
- Welfare facilities are provided by majority of the respondent companies. But only a few provide sleeping quarters and transportation. Half of the respondents do not provide health and safety training. There is a need to increase awareness on health and safety standards.
- There should be periodic medical check-ups for night workers in call centers to determine fitness for night work. There should be further studies on the health implications of night work in call centers.
- Night work for women in call centers may be allowed, as an expansion of Article 131 of the Labor Code, subject to certain requirements under a Memorandum Circular to be issued by the Secretary of Labor and Employment, which will serve as a Guideline for call centers and companies in similar operations.

Another area of concern is the low hiring rate but high turnover rate in Philippine call centers. The low hiring rate (between 3% and 5% of applicants per year) indicates the need for government intervention in the area of education and training and private investments in human capital. The high turnover rate (estimated at 20%) reflects the demand for voice. James March and Herbert Simon (1958) in their work entitled "Organizations" developed a model for employee voluntary turnover. Based on the model, turnover is affected by two factors, that is, ease of leaving and desirability of leaving a firm. Ease of leaving a firm is primarily determined by alternative employment opportunities outside the firm. This means that the more attractive the labor market outside the firm, the higher the probability of leaving. The desire to leave is a function of dissatisfaction at the current job, that is the higher the dissatisfaction level, the greater the probability of leaving. However, if there is opportunity to voice out employee dissatisfaction that would lead to changes in work conditions, employees might choose the "voice" rather than the "exit" option.

From the point of view of development administration, all this reflects the need for social dialogue among the stakeholders – to deal with the jobs effects of global sourcing, the hindrances encountered in maximizing the employment generation potential of this trend and appropriate policies and strategies to surmount them. Neither pure market mechanisms nor government regulations alone would be enough. As suggested by Dunlop (1984), negotiation and consensus building are alternative approaches that rely less on the market place and regulation.

The process of poverty alleviation should involve not only governments. All stakeholders must carry the burden of putting an end to poverty. Identifying unmet minimum basic needs (MBN) could help break what Sachs calls the "poverty trap." The next step is critical for it requires the allocation of resources, which are scarce in developing countries, especially those mired in external debt like the Philippines. Here, Sachs' analysis becomes significant indeed. Official development assistance should be used for public budget support, microfinance and humanitarian relief. This could lead to private and public investments in capital, that is, human capital, business capital, infrastructure, natural capital, public institutional capital and knowledge capital, and ultimately economic growth. For the nascent Philippine call center industry, investments in human capital are vital – to improve productivity, stimulate demand for labor, and raise incomes which *may perhaps* reduce turnover, albeit there is a need to address the seeming demand for "voice".

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