Economic growth alleviates poverty

If the cake grows, everyone gets a bigger slice. The profits delivered by economic growth trickle down to the poorer strata of society (**trickle-down effect**). For instance, if a large company grows, improving its share price, its employees receive higher salaries. What is more, the company is able to **invest more**, resulting in job creation and higher order volumes for other companies.

As the saying goes, a rising tide lifts all boats: economic development benefits a country's entire population.

Even though in countries such as India or Brazil countless people continue to live in poverty, their living conditions have improved significantly in relation to previous decades. What is more, the number of people in absolute poverty (= less than USD 1.25 per day) has fallen in recent decades, particularly in countries enjoying high economic growth such as China. In recent decades, growth has lifted millions of people out of poverty, especially in emerging countries such as China, Brazil or India.

Sources:

M. Schmelzer, A. Passadakis: Postwachstum, Hamburg 2011; K.H. Paqué: Warum Wachstum? Sechs Gründe für eine gute Sache, Berlin 2012; New economics foundation: Growth isn't working, 2006.

Economic growth does not reduce poverty, but reinforces inequality

In emerging countries such as India and China, economic growth has lifted millions of people out of poverty. However, at a global level, the **gap between rich and poor** has continued to grow in recent decades in spite of economic growth. GDP as an indicator of wealth says nothing about **inequality in the distribution of income**, material consumption and wealth. It is therefore very difficult to establish a connection between rising GDP and a reduction in poverty.

The trickle-down effect works only to a very limited extent. Social considerations play no part in decisions as to how profits are invested. If it is economically advantageous, a pharmaceutical company might for example prefer to invest its profits in better and more modern machinery to eliminate the need for expensive employees than to use the money to create new jobs. This was shown by a study conducted by the New Economics Foundation in 2006: for every 100 US$ of growth in global GDP, just 1.30 US$ contributed to lifting those in absolute poverty above the poverty threshold, and only 2.80 US$ went towards increasing the income of those in relative poverty. 95.90 US$ went to the non-poor. This is equivalent to taking 0.12% of the income of the richest 10% of the population and distributing it among the poor.

Over 50% of global wealth is in the hands of 2% of humanity, and 50% of humanity owns barely 1% of global wealth. If the trickle-down effect worked, this imbalance would have become less pronounced in recent decades, but the opposite can be observed. Economic growth does not therefore automatically reduce poverty – much more important is a **global redistribution** of wealth and resources.