

Swinburne University of Technology
The 2011 Stegley Lecture

The Responsibilities of the Affluent to Address Global Poverty

Thomas Pogge
pantheon.yale.edu/~tp4

Leitner Professor of Philosophy and International Affairs, Yale University

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Poverty

Poverty Today

Among 7000 million human beings, about
1000+ million are chronically undernourished (FAO 2011),
2000 million lack access to essential medicines
(www.fic.nih.gov/about/plan/exec_summary.htm),
884 million lack safe drinking water (WHO/UNICEF 2008, 32),
924 million lack adequate shelter (UN Habitat 2003, p. vi),
1600 million have no electricity (UN Habitat, "Urban Energy"),
2500 million lack adequate sanitation (WHO/UNICEF 2008, p. 7),
796 million adults are illiterate (www.uis.unesco.org),
218 million children (aged 5 to 17) do wage work outside their household — often under slavery-like and hazardous conditions: as soldiers, prostitutes or domestic servants, or in agriculture, construction, textile or carpet production (ILO: *The End of Child Labour, Within Reach*, 2006, pp. 9, 11, 17-18).

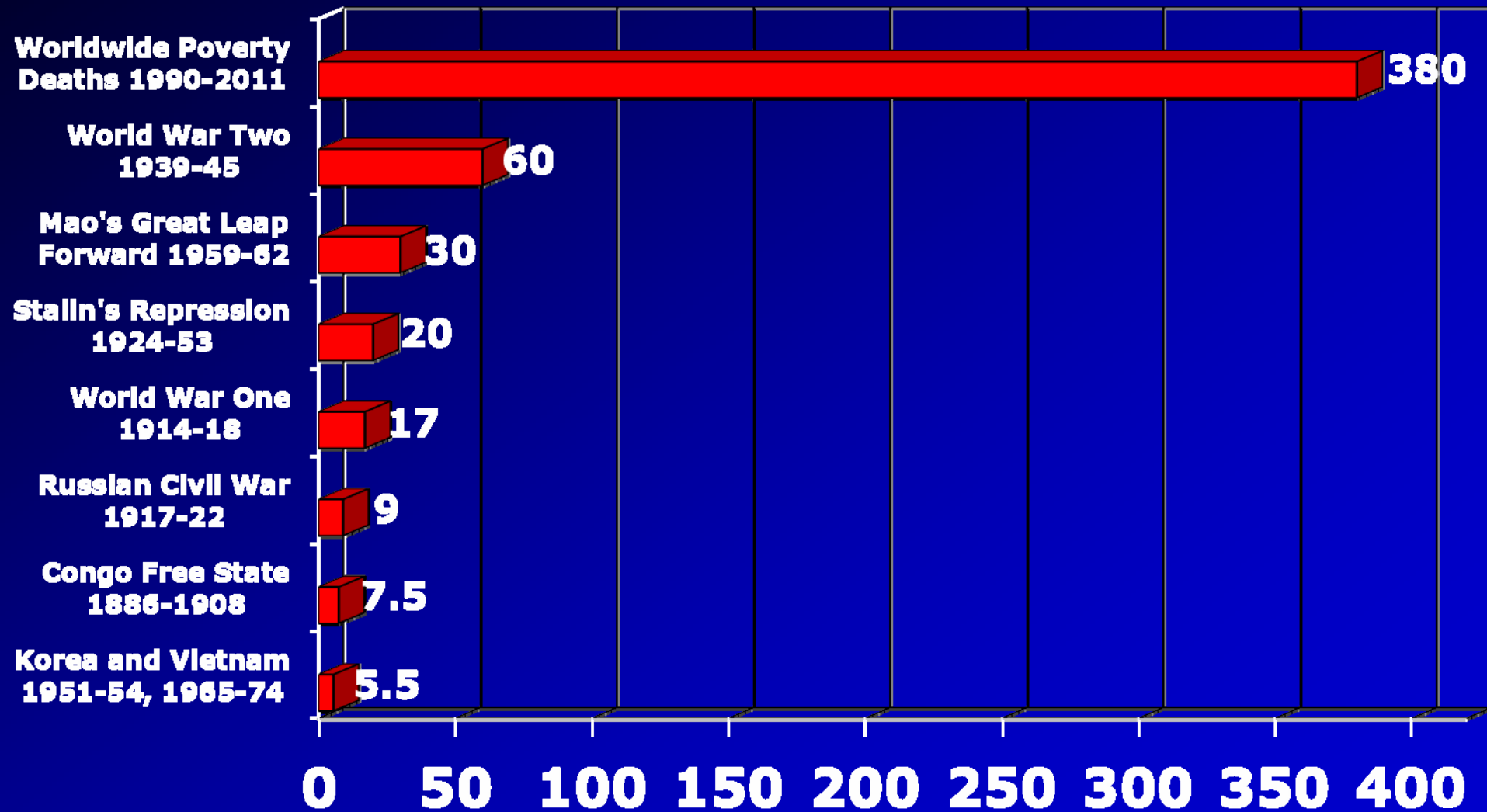
At Least a Third of Human Deaths

— some 18 (out of 57) million per year or 50,000 daily — are due to poverty-related causes, cheaply preventable through safe drinking water, better sanitation, more adequate nutrition, rehydration packs, vaccines or other medicines. In thousands:

diarrhea (2163) and malnutrition (487),
perinatal (3180) and maternal conditions (527),
childhood diseases (847 — half measles),
tuberculosis (1464), meningitis (340), hepatitis (159),
malaria (889) and other tropical diseases (152),
respiratory infections (4259 — mainly pneumonia),
HIV/AIDS (2040), sexually transmitted diseases (128)

WHO: *World Health Organization, Global Burden of Disease: 2004 Update, Geneva 2008, Table A1, pp. 54-59* ³

Millions of Deaths

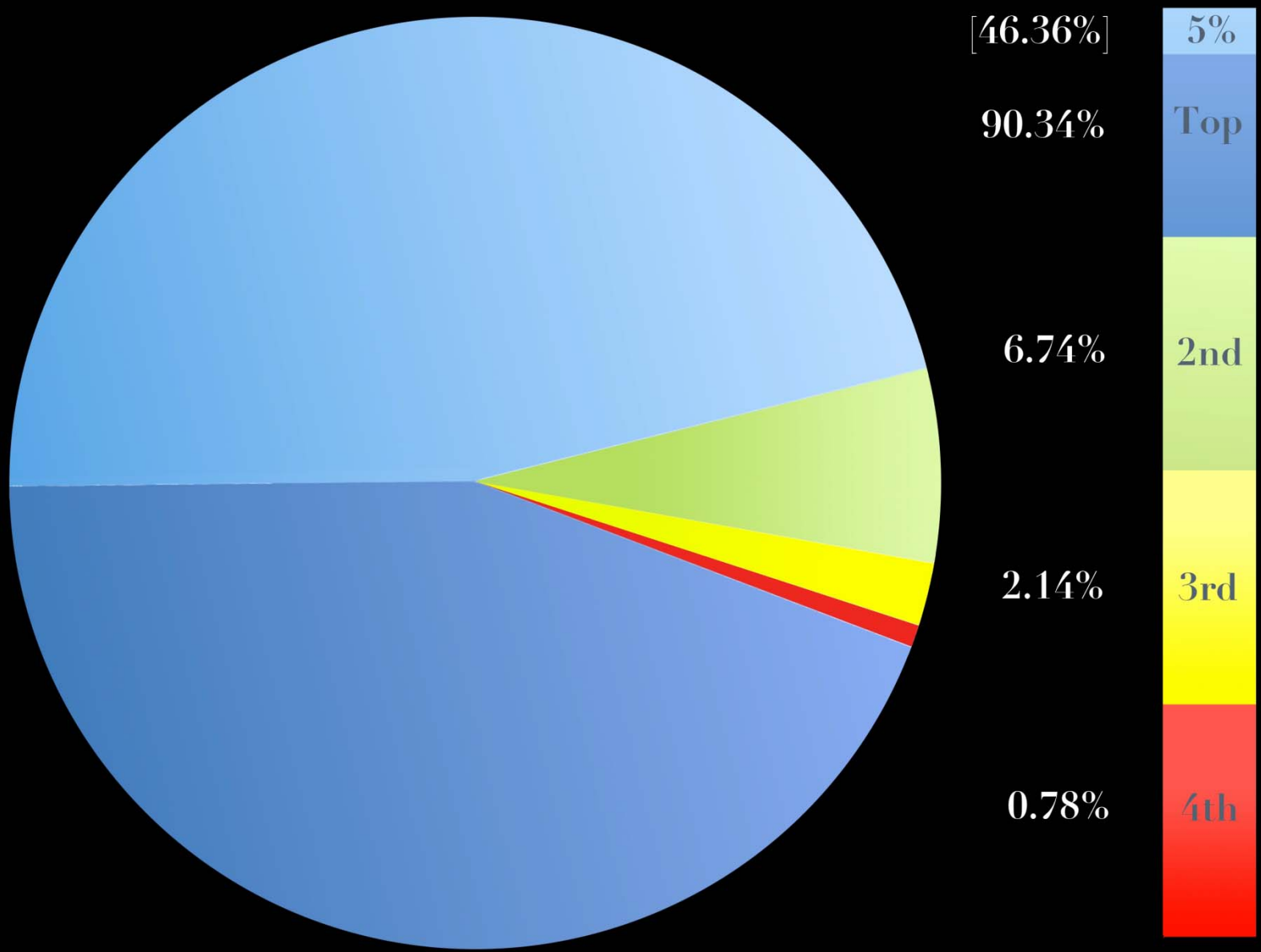


The Human Right Least Realized

“Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.”

Article 25(1), *Universal Declaration of Human Rights*, 1948

Global Share of Income by Population



Period	Chronically Undernourished Persons in Millions	Chronically Undernourished Persons as a Percentage of World Population
1969–1971	878	26
1979–1981	853	21
1990–1992	843	16
1995–1997	788	14
2000–2002	833	14
2005–2007	848	13
2008	963	14
2009	1023	15
2010	925	14

Data from UN Food and Agriculture Organization (FAO)

Segment of World Population	Share of Global Household Income 1988	Share of Global Household Income 2005		Absolute Change in Income Share	Relative Change in Income Share
Richest 5 Percent	42.87	46.36	9x	+3.49	+8.1%
Next 20 Percent	46.63	43.98	2x	-2.65	-5.7%
Second Quarter	6.97	6.74	1/4	-0.23	-3.3%
Third Quarter	2.37	2.14	1/12	-0.23	-9.8%
Poorest Quarter	1.16	0.78	1/32	-0.38	-32.8%

Data courtesy of Branko Milanovic (World Bank) ⁸

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Why?

Competitive/Adversarial Systems

— e.g.: real economy, financial markets, politics and international relations, courts, academic research, media — can be highly efficient when they are properly framed.

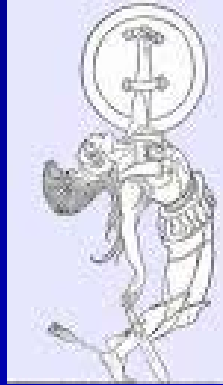
Proper framing is achieved when the rewards players seek from the system are highly correlated with achieving just/good outcomes.

Proper framing requires that the rules of the game are appropriately designed and that these rules are administered *transparently* ¹⁰

Competitive/Adversarial Systems

... contain seeds of their own demise / deterioration insofar as they provide incentives to various reward-focused players to try to get ahead by affecting, in their own favor, either the rules or their impartial application.

With such efforts, the rules and personnel structuring and constraining the competition become themselves objects of the



Competitive/Adversarial Systems

... can lose much of their effectiveness when such efforts to corrupt are lucrative: resources invested in regulatory capture are lost to the system; and, insofar as such efforts succeed, they diminish the degree to which the functioning of the system tracks its social purpose — for instance: justice and human flourishing.

Systemic Problem: Regulatory Capture with Inequality Spiral

Often in concert, the richest players influence the rules and their application, thereby expanding their own advantage. Such run-away inequality strengthens, in each round, both the incentives and the opportunities for influence. Public facilities come under the influence of players with special and often near-term interests — who buy support from media and academics for this purpose (venality esp. of economists who live up to their *homo oeconomicus* paradigm).

Special interests have been effective in influencing especially *international* agreements (WTO Treaty) and organizations (WIPO, World Bank).

Shifting Distribution in the US (1978-2007)

The income share of the bottom half declined from **26.4%** to **12.8%**. Meanwhile, that of the top one percent rose from **8.95%** to **23.50%** (*2.6-fold*); that of the top tenth percent from **2.65%** to **12.28%** (*4.6-fold*); and that of the top hundredth percent from **0.86%** to **6.04%** (*7-fold*; Saez Table A3).

The top hundredth percent (30,000 people) now have nearly half as much income as the bottom half (150 million) of Americans – and about two-thirds as much as the bottom half (3400 million) of world population.

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Really?

Counter-Argument

Poverty is evolving differently in various less developed countries and regions.

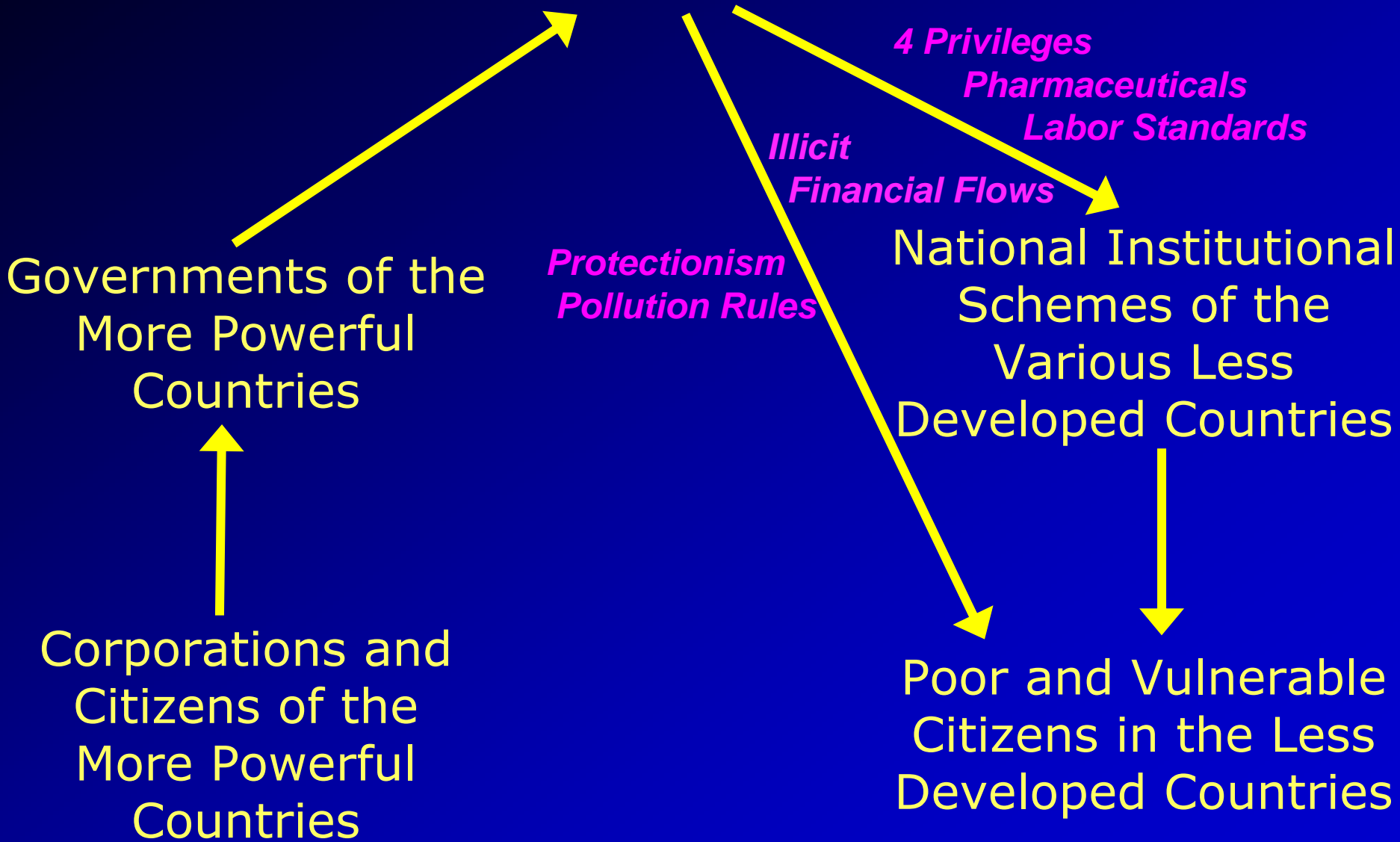
This shows that *local* (e.g., municipal, provincial, national) factors account for the persistence of severe poverty where it persists.

Conceptual Answer to the Counter-Argument

It merely shows that local factors are *co*-responsible for the persistence of severe poverty. It does not show that local factors are solely responsible.

Example: Differential learning success of students/pupils in the same class.

Global Institutional Architecture



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Human Rights

Human Rights as Moral Claims on (Global) Institutional Arrangements

“Everyone is entitled to a social
and international order in which
the rights and freedoms set forth
in this Declaration can be fully
realized.”

Law Divided against Itself

Since World War II, governments have created well-publicized and highly visible bodies of national and international law that recognize, codify and celebrate human rights. Governments often appeal to these documents to raise the image of themselves and their friends or to tarnish the image of their rivals.

Over the last 25 years, governments have created a vast and effective system of (mainly) supranational legal rules and regimes that — barely understood and uncontrollable by the general public — are formulated and administered without concern for human rights and in fact massively violate human rights.

Human Rights and Human Responsibilities

Insofar as there are human rights deficits we cannot avert, we have no responsibility for them.

Insofar as we can *avert* HR deficits through *active intervention*, we are failing in our *positive* responsibilities *to protect* and *to fulfill HRs*.

Insofar as we *knowingly cause or aggravate* HR deficits through our active intervention, we are failing in our *negative* responsibilities *to respect* and thus are *violating human rights*.

Human Rights and Correlative Duties

Negative duties
that I and my
government owe
to compatriots

Positive duties
that I and my
government owe
to compatriots

Negative duties
that I and my
government owe
to foreigners

Positive duties
that I and my
government owe
to foreigners

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What to do?

Structural Reforms

Those with an interest in reducing poverty and/or moderating inequality should develop *institutional* reform ideas — esp. for the *supranational* level — that also appeal to the generic interest in stability (in controlling regulatory capture) and to specific interests in private gain.

Rules Governing the Development and Distribution of New Medicines

Under the TRIPS agreement – part of the WTO Treaty – the intellectual property regime of the affluent countries was globalized by being made a mandatory condition of WTO membership.

Pharmaceutical innovators must now be granted *product* patents of minimally *20-year* duration in all WTO member states.

The Existing System

does poorly on three main counts.

- ***Universal access*** is gravely undermined, even in affluent countries, by extremely high mark-ups and, after the patent period, by inadequate incentives for the competent provision of generics to poor or hard-to-reach patients.
- ***Focused innovation*** is distorted by huge economic inequalities, which sustain the “10/90 gap”, and by excessive rewards for “me-too” and maintenance drugs.
- ***Overall efficiency*** is greatly diminished by lobbying, gaming, patenting and litigation, by deadweight losses, and by incentives for wasteful marketing and counterfeiting.

Moral Pressure on Innovators Isn't the Solution

Like individuals, pharmaceutical firms have duties of rescue: to deliver important drugs cheaply to poor patients and to develop new medicines for the diseases of the poor.

Yet, foreseeably, such firms will not fulfill these moral duties: they are bound to shareholders, stand in fierce competition with one another and must ensure the sustainability of their innovation efforts which is totally dependent on mark-ups.

The pharmaceutical industry can and should do much better. But achieving this is the task of citizens and politicians who bear responsibility for how pharmaceutical firms are regulated and rewarded.

The Health Impact Fund (HIF)

... is a *complement* to TRIPS. Innovators may *voluntarily* register any new medicine with the HIF.

... promises to reward (upon registration) any new medicine annually for ten years on the basis of its *global health impact* (in QALYs).

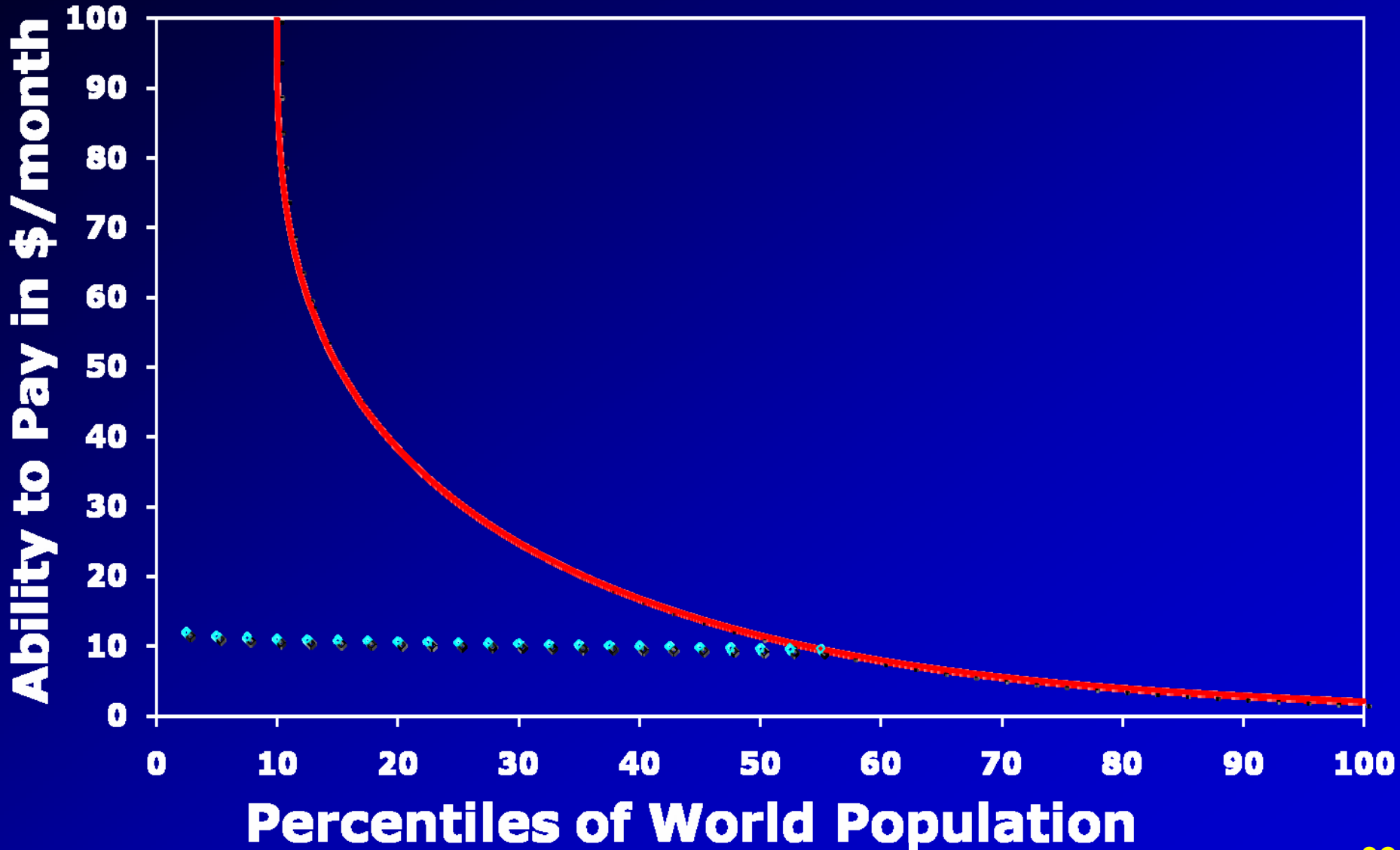
... is funded by willing governments at initially *\$6 billion* per annum (0.01% of Σ GNI).

Registrant gives up no intellectual property rights but agrees to sell the new medicine wherever it is needed at the *lowest feasible average cost of manufacture and distribution* and to grant zero-priced licenses after reward period.

The HIF Avoids High Prices

All HIF-registered products are available at or below cost from Day One (below cost when the incremental health impact makes it worthwhile to sell at a loss). The poor get better access to important new medicines: through their own funds or through national governments, international agencies, or NGOs.

Global Pharmaceutical Demand Curve



The HIF Ends Neglect of the Diseases of Poverty

The HIF provides powerful new incentives to develop new medicines with the greatest health impact — regardless of the socio-economic composition of the patient population.

Distribution of Pharma Research

Diseases accounting for 90% of the global disease burden receive only 10% of all medical research worldwide. *The 10/90 Gap.*

Pneumonia, diarrhea, tuberculosis and malaria, which account for over **20%** of the global burden of disease, receive less than **1%** of all public and private funds devoted to health research.

Of the **1556** new drugs approved between 1975 and 2004, only **18** were for tropical diseases and **3** for TB. NB, this was recently disputed with the claim that there were **16** more in the 1975-99 period. See www.plosone.org/article/info:doi/10.1371/journal.pone.0010610

The HIF Alleviates Last Mile Problems in Drug Delivery

Local availability as well as proper storage, prescribing and compliance are essential to drug effectiveness.

Dilemma: drugs are either too expensive or “too cheap,” hence *unaffordable* or *unpromoted*, among the poor.

The HIF pays on the basis of each medicine’s *actual* health impact as assessed through sampling of actual use & benefits as well as through population health data.

Firms therefore have incentives to promote appropriate use of their registered products, as well as to develop products that are effective in resource-poor settings.

The HIF is a Political Reform that

- constitutes an enduring *structural* reform;
- effectively symbolizes the idea that all human lives are of equal value, genuine *moralization*;
- *benefits* a strong, well-organized faction of the global elite (new profit opportunities, brand image intro/upgrade, reduced volatility);
- is *scalable* and can be increased and/or adjusted as experience warrants;
- strengthens those with an objective interest in reform: *empowerment* of the global poor;
- is an exemplar of *realistic* moral leadership, *replicable* creation of a global public good.

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Conclusions

Conclusions

Through our governments, we citizens of wealthy countries are involved in harming the global poor by means of unjust supranational institutional arrangements.

We can avoid shared negative responsibility for such harms by working toward institutional reforms that would eradicate severe poverty or, in a compensatory way, by supporting effective organizations that protect the poor from harm.