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# **GLOBAL DEVELOPMENT ISSUES: ECONOMIC AND FINANCIAL ASPECTS**

**Monograph**

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Today, humanity is facing a lot of problems on a global scale. Some of them are wearing short-term, other global problems are longer term and may require a strategic approach to finding solutions. The monograph examines the crucial problems of modern economy and current trends in its development.

Global poverty is one of humanity's' pain. No less complex problems facing humanity are the need to counter climate change and global warming, the introduction of the principles of sustainable development, responsible business conduct and responsible investment in the global agenda, digitalization of the world monetary system and decarbonization. These issues are explored in the monograph

*The monograph is intended for specialists in economics and finance, scholars, lecturers and students, as well as anyone interested in the problems of the world economy and world finance.*

**Keywords:** *sustainable development; digitalization; monetary system; central bank digital currencies; CBDC; climate change; ESG principles; decarbonization; climate risks; cryptocurrency.*

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# INTRODUCTION

For a long time, serious problems have been accumulating in the world economy that cannot be solved. Today, humanity has come to the point beyond which further development is no longer possible without a cardinal solution to the accumulated problems and imbalances. Climate change and environmental pollution are exacerbated by demographic problems and resource constraints. Globalization as a model for the development of world economy was based on the objective processes of international division of labor, the expansion of transnational corporations in developing countries, the transfer of various industries to the periphery, as well as the widespread dissemination of information technologies. Today, the degree of interdependence of national economies determines the need to solve problems at the global level. There is a contradiction between national and global development priorities. The result of globalization and the functioning of the current model of the world monetary system was the formation of global imbalances. The world economy is losing stability, becoming fragile and vulnerable.

Growing instability of the global economy and finances has placed on the agenda a dilemma between efficiency, which is about optimizing the use of scarce resources, and resilience, which is about adapting quickly to unexpected shocks, global supply chains breaks, and complexities of governance in a global world as the scale of economic activity and the number of uncertainties increase.

The speed and scale of ongoing changes have further complicated the pressing problems of global development. The increase in the rate of changes is due to the influence of IT and digital technologies on all aspects of human existence. The digitalization of the economy, finance, public and corporate governance, social interactions is changing their nature, creating new opportunities and risks. The scale of changes is related to the global nature of transformations. So, the decisions significant in their consequences have to be made under conditions of extreme uncertainty, and the cost of a mistake increases sharply.

In ten chapters of the given monograph, the authors analyze the crucial aspects of global economic development: poverty, debts, digitalization, new forms of money and climate change.

Despite the efforts of the governments of the major world powers, even in the most developed countries, a significant proportion of the poor population remains, and this fact requires the development and implementation of special social programs and a large amount of funding. If we consider poverty on a global scale, then its dimensions are truly enormous. In catastrophic conditions, exacerbated by the COVID-19 pandemic and general global political and economic instability, the population of many countries, especially the African continent, finds itself. And only collective and coordinated efforts of the world community can solve this problem.

Increase in the volume of advanced and developing countries' debts, became the hard burden. It becomes clear that there is a need to manage the global debt and to find a better way to handle the debt financing needs of developing countries and some advanced economies as well. Problems and contradictions in the sphere of development finance include dependency on assistance; conditionality of aid and the fact that financing often serves the geopolitical and economic interests of the donors; provision funds for survival, not for the development; inappropriate way of helping poor countries; disproportions in providing financial resources.

The issue of climate change cannot be considered apart of the issues of sustainable development and socially responsible business. Sustainable Development is an approach, contributing to the expansion of economic opportunities, increasing prosperity, and protecting the environment. Achieving the Sustainable Development Goals requires a balance between economic efficiency, social inclusion, and environmental sustainability. Such a balance is ensured by the implementation of the ESG principles.

The ongoing world economy transformation, aimed at reducing greenhouse gas emissions, minimizing the use of fossil energy sources in order to counteract global warming, requires large-scale technological changes and a huge amount of investment. The financial and technological capabilities of countries vary greatly. This may lead to new contradictions.

The comprehensive analysis of current trends in global economic development carried out by the authors of the monograph makes it possible to identify key problems that need to be addressed as soon as possible.



# **Chapter 1. IMPACT OF POVERTY ON THE WORLD'S ECONOMIES**

## **The Concept of "Poverty" in the Context of Global Problems**

Poverty today has ceased to be a purely national category, this phenomenon has acquired global proportions. According to the World Bank, about 8% of the world's population live below the extreme poverty line.

A retrospective analysis of statistical data shows that the proportion of the population of our planet living below the poverty line has been steadily declining over the past two hundred years. The main reasons for this process should be called the beginning of industrialization and the growth of labor productivity in all sectors of the world economy. Undoubtedly, this is a very significant achievement of mankind. However, one cannot ignore the fact that while the proportion of people living in extreme poverty is declining, the general trend of population growth on our planet has led to an increase in the absolute number of extremely poor people in the world at the beginning of the twentieth century. Today, according to the World Bank, almost one in ten people on Earth lives in extreme poverty.

Just a few generations ago, even in today's fairly developed countries, such as Japan, Canada, Italy, the majority of the population lived in conditions of extreme poverty. However, the accelerated pace of industrialization in these states contributed to the improvement of the living conditions of the population. This trend shows the potential to end extreme poverty in low-income countries. At the same time, despite noticeable progress, in a number of quite prosperous countries, in particular in the United States, part of the population still lives in conditions of extreme poverty, which is a consequence of exceptionally high income inequality.

Poverty as a social phenomenon is closely related to the concept of inequality, but it is wrong to interpret it as a simple consequence of inequality in the income level of the population. Poverty is also one of the causes of social exclusion between people. The colossal gap in income and opportunities leads to the

fact that some people are deprived of access to elementary human benefits and actually find themselves "outside" of modern society.

In particular, the European Council interprets the concept of "poverty" as follows: "The poor shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in Member States in which they live." (European Council, 1984).

Poverty can be viewed as an absolute indicator of a person's ill-being at a particular point in time, that is, as a fairly static indicator. Social exclusion, on the contrary, can be interpreted both as a final result and as a dynamic process. Such a process leads to the isolation of people and their displacement to the "roadside", the periphery of life. Social exclusion does not allow specific people to participate in the life of society as a whole, in its social and cultural sphere, in the economy or politics. Social exclusion, seen as the final result, shows the status of a particular person. In general, social exclusion as a global problem has many aspects, it is expressed both through poverty rates and through restrictions associated with education and job search opportunities, access to universal benefits and activities.

Poverty can be measured in terms of income or material deprivation. Social exclusion is not expressed by specific quantitative indicators, it can be assessed in legal terms, namely as the deprivation of a person of such social rights as the right to housing, health care or education, the right to work [81].

Social exclusion also manifests itself in the inability of people to fully enjoy democratic freedoms. At the same time, it is customary in sociology to distinguish two types of alienation of people: active and passive. Active alienation is the result of a purposeful policy of the state or its power structures, or the social practice carried out in the country. Passive alienation occurs without "deliberate" action on one's part as a consequence of the complex interaction of social processes.

The factor of social exclusion is extremely important for the social well-being of society as a whole.

The problem of poverty, in addition to the negative impact on the social sphere and the economy of the country, also has political consequences. Therefore, the methodology for assessing and quantifying poverty should be balanced, evidence-based and as sensitive as possible [128].

## **Causes of Poverty Persistence and Exacerbation in the Modern World Economy**

Understanding the causes of the emergence and aggravation of poverty on a global scale is the first step towards its reduction and elimination. Therefore, it is necessary to conduct a comprehensive analysis of these factors.

### *Inequality in rights*

The concept of "inequality" is used to identify barriers, barriers that are systemic in nature. Such restrictions deprive certain groups of people of representation in their communities or the right to vote. Equality in rights is a necessary condition for overcoming the poverty of the country's population. Only the general involvement of the population in the decision-making process can bring real results in resolving issues that determine the place of each individual in society.

Varieties of inequality include gender inequality (inequality based on gender), caste systems (division of society into social strata by income and privileges), inequality based on race or tribal affiliation.

Any kind of inequality hinders access to the resources needed for a fulfilling, productive life. A society divided into classes is much more vulnerable to the problem of poverty than a close-knit homogeneous community of like-minded people.

### *Military conflicts*

Military conflicts today are one of the most formidable causes, the consequence of which is inevitably an increase in the scale of poverty. They destroy the country's infrastructure, social ties between people, force the population to flee, leaving their homes, abandoning property acquired by generations. As a result of such conflicts, the so-called "middle class" of the population, well-employed and well off, is slipping below the poverty line. So, for example, in the tenth year of the conflict, the middle class in

Syria was practically destroyed, and more than 80% of the population was below the poverty line.

However, short-term conflicts can also lead to less catastrophic, but also very serious negative consequences. In conditions of economic and political instability and uncertainty, people do not develop businesses and do not develop long-term strategies for growing their business.

One of the most vulnerable segments of the population are women, as they tend to bear the brunt of conflicts. Often during such periods, female-headed households become widespread. Gender inequality in many countries of the world exacerbates the situation of women in times of conflict, prevents them from getting well-paid jobs, leads to their exclusion from the decision-making process in society.

### *Hunger*

Certainly, poverty leads to starvation of millions of people on the planet. At the same time, hunger is also a reason that does not make it possible to overcome the poverty threshold, since a person who does not have the opportunity to eat well or simply does not receive enough food is not able to work at full capacity. He is susceptible to various diseases, his immune status and vitality are reduced.

There is another, deeper, impact of hunger: according to experts, the first 1000 days of a child's life are of decisive importance for ensuring his future health and the likelihood that he will not fall below the poverty line. Insufficient nutrition of the mother leads to malnutrition and stunted development of her child. These factors, in turn, lead to further physical and mental inferiority of a person. According to scientists who have studied this relationship, adults who, as children, lagged behind in growth and development, earn on average 22% less than the rest of the population.

### *Low level of medical care*

The level of organization of the healthcare system in the country is inextricably linked with the state of the economy of the state as a whole. In the world's poorest countries, characterized by extremely poor quality of medical care, many diseases that are easily preventable and treatable in prosperous countries are becoming epidemics. This results in a high mortality rate, especially

among young children. Paid medical services can significantly increase the costs of the most vulnerable households, which can lead a family from poverty to extreme poverty. In such countries, women are particularly at increased risk of disease and death, for whom pregnancy and childbirth can lead to death. This problem is of particular relevance for adolescent girls under the age of 18.

#### *Restriction of access to clean water*

Today, more than 2 billion people on our planet do not have access to clean water in their homes. As a result, members of such families, mostly women, have to travel long distances every day to provide their loved ones with water for drinking, cooking and sanitation. This job costs up to 200 million hours per day: hours that could be spent on education to find better paying jobs and raise family incomes.

Lack of access to clean water inevitably leads to an increase in the number of diseases, many of which become chronic or even pose a direct threat to human life. The absence or poor quality of sanitation facilities as a result of limited access to clean water sources only exacerbates the problem and creates obstacles to the escape from poverty.

#### *Climate change*

Climate change, whether it be more frequent floods or, conversely, droughts in certain regions of the world, is also contributing to the growing number of hungry people on the planet. They exacerbate poverty both directly, by destroying ecosystems and destroying crops and plantings of food crops and reducing livestock, and indirectly, by causing new flows of refugees and provoking conflicts. Agriculture, hunting and gathering are traditional industries in the world's poorest countries. However, the population of such countries, as a rule, does not have a sufficient level of food supplies to hold out until the next season in the event of natural disasters or a lean year. According to one World Bank estimate, climate change could push more than 100 million people below the poverty line over the next decade.

#### *Lack of education*

Of course, if a person does not have an education, this does not mean that he is poor or is about to be below the poverty line. However, there is an inverse relationship: the vast majority of

people living in poverty have no education. Poor families often do not have the financial means to purchase everything they need to educate their children. In addition, in the world's poorest regions, prejudice against education in general is often strong, or there are traditional restrictions on education based on gender. All this taken together hinders education, and as a result, the opportunity to get out of the circle of poverty.

UNESCO estimates that 171 million people could be lifted out of extreme poverty if they completed school with basic reading skills. Thus, there is a close and two-way relationship between education and poverty: on the one hand, poverty threatens education, on the other hand, education can help fight poverty.

#### *Lack of developed infrastructure*

The lack of developed infrastructure can further alienate the inhabitants of poor countries from the benefits and achievements of civilization. If there are no good roads and bridges connecting settlements in a rural region living in a communal system, there are no technical conditions for street lighting, and, of course, there are no cell phones and the Internet, then opportunities for education, normal work and realization are reduced. manufactured products. The long distance travel required to gain basic access to basic services means high time and money costs, which also impede the out-of-poverty. Thus, there is a physical isolation that limits human opportunities, without which it is impossible to escape from extreme poverty.

#### *Lack of government support*

The governments of the poorest countries cannot provide the population with any significant state support, not to mention the implementation of any social programs. They are also unable to develop social infrastructure, establish an effective health care system and provide protection to their citizens in case of conflict. The absence of government support programs in these areas means that people living in extreme poverty are left to fend for themselves. And it is extremely difficult to get out of this "pit" on your own.

#### *Lack of livelihood and work*

Lack of livelihood and work obviously leads to poverty. At the same time, the natural resources of the poorest regions, which

since ancient times have served as a source of food for people, such as fertile lands, fauna of the region, minerals, are being depleted due to irrational consumption, climate change, overpopulation and regional conflicts.

For example, the vast majority of the population of the Democratic Republic of the Congo lives in rural communities whose natural resources have been looted as a result of centuries of colonial rule. Interethnic conflicts forced the local population to abandon land as a traditional source of food and income. As a result, more than half of the country's population today lives in extreme poverty.

#### *Lack of financial reserves*

Financial reserves are a "cushion" of safety, regardless of whether we are talking about the state's reserve fund or the savings of a particular family. If there are reserves, the risks of adverse developments both in society as a whole and for a particular person are reduced. For example, having savings or being able to get a low-interest loan can help you get through a period of unemployment. In case of natural disasters, the creation of reliable food storage facilities is required. However, people living in extreme poverty usually do not have savings. And in the event of crisis situations or natural disasters, they use the so-called "negative coping mechanisms", that is, they resort to extreme measures that further aggravate their situation in the future: they prevent their children from getting an education, they sell all the assets at the disposal of the family. And for the people of countries that regularly face protracted conflicts or live in extreme climatic conditions, repeated crises inevitably lead to even greater poverty and the inability to ever break out of this "vicious" circle.

## **The Impact of Poverty on the Economies of the World's Countries**

The impact of Covid-19, rising global inequality and soaring food prices will push more than a quarter of a billion more people into poverty this year, according to charity group Oxfam International.

The cumulative blow could see 860 million people living below \$1.90 a day by the end of 2022, up 263 million from pre-pandemic projections, the group said in a report on Tuesday. This

is equivalent to the entire population of Great Britain, France, Germany and Spain combined.<sup>1</sup>

The poorest will be hit the hardest, with food spending accounting for 40% of consumer spending in sub-Saharan Africa, compared to 17% in advanced economies, Oxfam said, citing an IMF report.

Oxfam warned that a return to inflation is a recipe for financial turmoil in low-income countries that need dollars to import energy, medicines and food and whose debt is mostly in US currency.

To remedy the situation, Oxfam came up with a number of ideas. These include an annual wealth tax for millionaires starting at 2% and 5% for billionaires, which the organization estimates will generate \$2.52 trillion a year. That would be enough to lift 2.3 billion people out of poverty, produce enough vaccines for the world, and provide universal health and social protection for all who live in low- and lower-middle-income countries.

In the US, President Joe Biden last month proposed a 20% minimum tax on households worth more than \$100 million. While it could bring in hundreds of billions of dollars in new revenue and has the strong support of many Democrats, it is unlikely to be passed in Congress anytime soon, where the party has a paltry advantage, because many moderate lawmakers are wary of such a large tax.

Oxfam is also calling on the G20 to cancel all debt payments this year and next for all low and lower middle income countries that need it. The group calculated that the debt servicing of all the world's poorest countries this year will be \$43 billion, equivalent to almost half of their food import bills and public health spending combined.

## **USA**

The economic crisis in the country has deeply affected the lives of millions of Americans. Soaring layoffs have cut the ground from under the feet of many families, especially those living in low-income communities. Deepening poverty is inextricably linked to rising levels of homelessness and food insecurity/hunger for many Americans, and children are particularly affected by these conditions [86].

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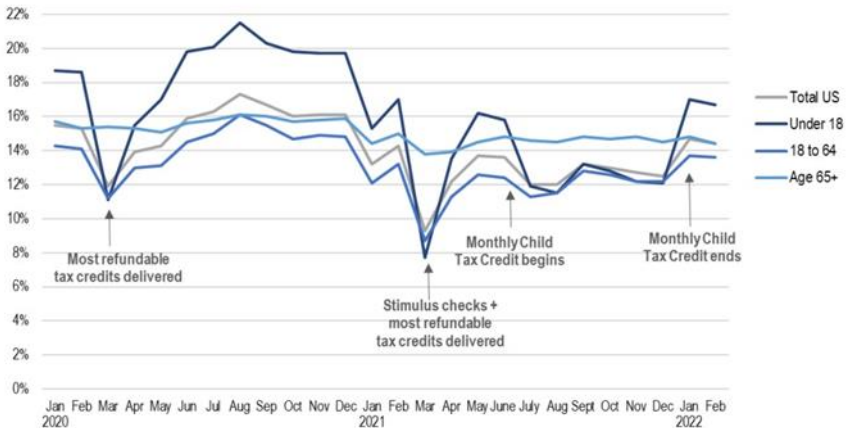
<sup>1</sup> <https://time.com/6166028/covid-poverty-hunger-war-inflation/>



The Center on Poverty & Social Policy at Columbia University estimates that monthly poverty remained high in February 2022, with a poverty rate of 14.4 percent for the entire US population.<sup>1</sup> This is a slight decrease from 14.7 percent in January 2022, but a continuation of the monthly poverty rate spike in December 2021 at 12.5 percent. Overall, 6 million more people lived below the poverty line in February than in December. Figure 1.1 presents monthly poverty trends for the total US population and by age group from January 2020 to February 2022.

Child poverty decreased slightly (0.3 percentage points) from 17.0 percent in January to 16.7 percent in February 2022. These levels also represent a continuation of the sharp rise in child poverty since December 2021, when the monthly child poverty rate was 12.1 percent.

January 2022 was the first month that the American Plan of Rescue's monthly extended child tax credit expired, and child poverty rates soared in response. Monthly child poverty in February 2022 is 4.6 percentage points (38 percent) higher than in December 2021, meaning that 3.4 million more children were living in poverty in February than in December. Table 1.1 breaks down the changes in child poverty between December 2021 and February 2022, both overall and by children's race and ethnicity.



**Figure 1.1 – Trends in Monthly Poverty, by Age (Jan 2020–Feb 2022)**

<sup>1</sup> <https://www.povertycenter.columbia.edu/news-internal/monthly-poverty-february-2022>

Similar to the pattern for child poverty as a whole, small declines in monthly poverty rates from January to February 2022 were seen for White children (0.1 percentage points), Latino children (0.5 percentage points), and Black children (0.6 percentage points); Asian children, by contrast, saw an increase (1.2 percentage points). But the differences between February 2022 and December 2021, the last month in which the expanded Child Tax Credit monthly payments were in place, remain stark.

One in four Black children in the United States lived with a monthly income below the poverty line in February 2022, an increase of close to 600,000 Black children from December 2021 (a 28 percent rise). Latino children experienced the largest percentage point increase, seeing a 6.6 percentage point (40 percent) increase in child poverty from December 2021 to February 2022; this increase amounted to 1.25 million additional Latino children in poverty in February 2022 compared to December 2021. Asian children experienced a 37 percent rise in their child poverty rate, equal to 200,000 more children in poverty, over the same period.

In a monthly poverty framework, poverty rates often decline during the tax season when families file for and receive their annual tax refunds, including important tax credit payments. Because these funds are delivered in one-time, lump-sum payments, they contribute to large reductions in poverty in the months they are delivered (see Parolin, Curran, Matsudaira, Waldfogel, and Wimer 2022 for more on methods).

The impact of annual tax refunds on monthly poverty is evident in Figure 1, where March 2020 and 2021 saw the lowest poverty rates in each year. Between July and December 2021, the Internal Revenue Service (IRS) paid out half the value of the 2021 Child Tax Credit in six months of advance monthly payments worth up to \$250 per child aged 6 to 17 and up to \$300 per child aged under 6, reaching over 61 million children in over 36 million households. Families who file a federal tax return will receive the balance of their 2021 Child Tax Credit at tax time in 2022. Delivery of the second half of the Child Tax Credit, alongside other family tax credits such as the Earned Income Tax Credit and Child and Dependent Care Tax Credit, is likely to result in substantial, but temporary, dips in monthly poverty rates for the US population

as a whole and for children specifically in March and April of 2022. Following the conclusion of tax season, however, it is likely that monthly child poverty rates could be persistently high through the rest of 2022 absent the continuation of an expanded Child Tax Credit, further policy interventions, or strong improvements in the labor market.

Table 1.1

**Monthly Child Poverty Rates by Children's Race and Ethnicity<sup>1</sup>**

SPM POVERTY RATE (%)							
Children	December 2021	January 2022	February 2022	Percentage Pt. Difference (Jan vs. Feb)	Percent Change (Jan vs. Feb)	Percentage Pt. Difference (Dec vs. Feb)	Percent Change (Dec vs. Feb)
All	12.1%	17.0%	16.7%	-0.4%	-2.1%	4.6%	38.2%
Asian	11.9%	15.1%	16.3%	1.2%	7.6%	4.4%	36.6%
Black	19.5%	25.4%	24.9%	-0.6%	-2.2%	5.4%	27.5%
Latino	16.8%	23.9%	23.4%	-0.5%	-2.2%	6.6%	39.4%
White	7.5%	11.4%	11.3%	-0.1%	-0.6%	3.8%	51.4%

NUMBER OF CHILDREN IN POVERTY					
Children	December 2021	January 2022	February 2022	Change (Jan vs. Feb)	Change (Dec vs. Feb)
All	8,912,000	12,574,000	12,315,000	-259,000	3,404,000
Asian	519,000	659,000	709,000	50,000	190,000
Black	2,175,000	2,837,000	2,774,000	-63,000	598,000
Latino	3,165,000	4,509,000	4,410,000	-98,000	1,246,000
White	2,750,000	4,189,000	4,165,000	-24,000	1,415,000

Parolin, Collyer, and Curran (2022), Center on Poverty and Social Policy at Columbia University, Monthly SPM Poverty, February 2022. \*Numbers rounded to the nearest thousand.

Most of the arguments for reducing poverty in the US, especially among children, are based on moral arguments that highlight the unfairness of child poverty and how it goes against our national creed of equal opportunity for all.

But there is also an economic case for reducing child poverty. When children grow up in poverty, they are somewhat more likely than non-poor children to have low earnings as adults, which in turn reflects lower labor productivity. They are also slightly more likely to commit crime (although this is not the case for the vast majority) and have poor health later in life. Their decline in manu-

<sup>1</sup>

<https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/623b3453e0ed764d39b715b4/1648047188230/Monthly-poverty-February-2022-CPSP.pdf>

facturing activity leads to direct losses of goods and services for the US economy.

What's more, any crime they engage in incurs large financial and other personal costs for their victims, as well as costs for taxpayers to manage our vast criminal justice system. And their poor health breeds diseases and early deaths that not only require high health care costs, but also reduce productivity and ultimately reduce the quality and length of their lives.

As a result, the United States spends about \$500 billion a year on child poverty, equivalent to nearly 4 percent of GDP.<sup>1</sup>

Experts believe that a specific anti-poverty policy should include several clear options, among them:

1. Universal preschool programs
2. Various elementary and secondary school reforms
3. Expanding the earned income tax credit and other income support for the working poor. Vocational training for poor adults.
4. Higher minimum wage and more collective bargaining
5. Revitalization of low-income neighborhoods and housing mobility
6. Marriage promotion and religious initiatives

## Germany

The German economy has been on the rise for a long time. After reunification, the unemployment rate steadily declined and Germany became one of the richest countries in Europe. However, poverty in Germany remains a serious problem. In 2018, more than 15% of the German population lived below the poverty line [83].

Despite the country's economic success in manufacturing and trade with the European Union (EU), over the past decade the number of people at risk of falling below the poverty line has increased in all West German states and in Berlin. The German Institute for Economic and Social Research defines the poverty line as an average net income of 60%. The poverty line has also risen from €736 per month in 2005 to €999 per month in 2017 and

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<sup>1</sup> <https://www.americanprogress.org/article/the-economic-costs-of-poverty/>