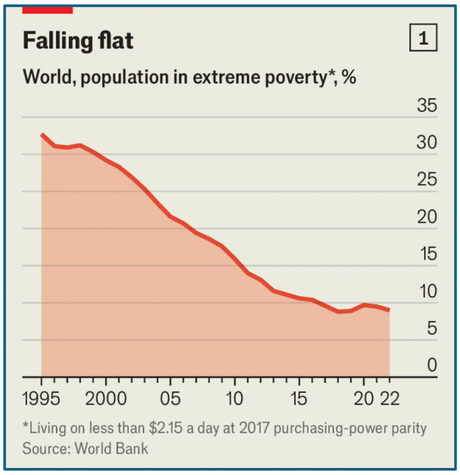
Economist, “Economic Development: End of the road”, 21 Sep 2024, p. 61-3.

There are now a billion fewer people subsisting on less than $2.15 a day than in 2000. Each year since the turn of the millennium, a cast of aid workers, bureaucrats and philanthropists, who often claim credit for this extraordinary plunge in extreme poverty, has met on the sidelines of the UN’s General Assembly to celebrate progress in their catchphrase-cum-targets of “sustainable development goals”. When on September 22nd the latest gathering begins in New York, many will once again be feeling pleased with themselves.

But here are some startling facts. Almost all of the progress in the fight against poverty was achieved in the first 15 years of the 2000s (see chart 1). Indeed, in 2022 just one-third as many people left extreme poverty as in 2013. Progress on infectious diseases, which thrive in the poorest countries, has slowed sharply. If the share of people contracting malaria, in countries that have the disease, had continued to fall at the same pace as from 2000 to 2012, there would have been half as many cases as there in fact were in 2022. Developing-world childhood mortality plummeted from 79 to 42 deaths per 1,000 births between 2000 and 2016. Yet by 2022 the figure had dropped only a little more, to 37. The share of primary-school-aged children at school in low-income countries froze at 81% in 2015, having risen from 56% in 2000. Poverty is a thing of the past in much of Europe and South-East Asia; in much of Africa it looks more ingrained than it has in decades.



Falling flat

World, population in extreme poverty*, %

*Living on less than $2.15 a day at 2017 purchasing-power parity
Source: World Bank

The poor world has, in short, experienced a brutal decade. Development agencies have responded by pouring cash into education and health care, in a form of emergency triage. Now money is growing scarce and few countries show signs of economic take-off, despite the best efforts of institutions such as the IMF and the World Bank. Across the world, 700m people are still extremely poor and 2.8bn people reside in regions that are getting no closer to rich-world living standards.

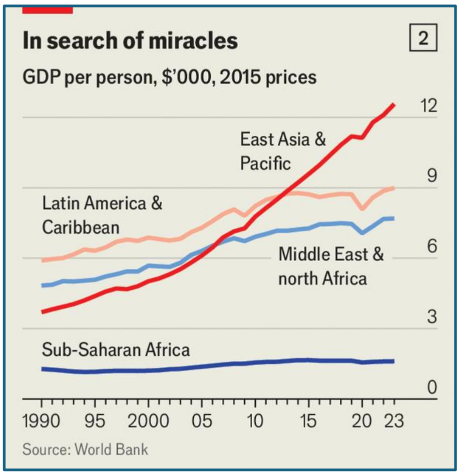
What is going on? The answer begins with economic growth. In theory, poor countries should be able to roll out rich-world technology, dodging the costs and mistakes that are associated with invention. Capital should also become plentiful as investors search far and wide for the best returns on offer. Together these benefits ought to lead to higher growth in the poor world. In 2021 Dev Patel of Harvard University and Arvind Subramanian, a former adviser to the Indian government, now at Brown University, established that this sort of “catch-up” growth really did begin to happen around 1995. Over any given five-year period, low- and middle-income countries saw their GDP per person grow 0.1 percentage points faster than high-income countries. China, India, East Asia and eastern European countries that escaped the Soviet Union were responsible for the vast majority of this progress.

In the following decade, catch-up growth briefly became widespread. The world’s 58 poorest countries—home to 1.4bn people—grew by 3.7% a year between 2004 and 2014, against average annual growth of just 1.4% in the OECD club of mostly rich countries. Since 2015, however, the wealth of a country has had no influence on its economic growth, according to Paul Collier at the University of Oxford.

Much of East Asia and eastern Europe is now rich, meaning that the regions’ robust growth contributes to divergence between the rich and poor world, rather than convergence. A new generation of fast-growing countries might have picked up the slack were it not for a series of shocks. The covid-19 pandemic was a disaster for all countries, but particularly those in the developing world. Interest-rate rises that followed, to bring down inflation, proceeded to squeeze budgets and drag on investment. Climate change adds to the pressure, as does an increase in the number of conflicts around the world. Coups and corruption remain big problems.

Stuck in the 1970s

The result is that by the end of last year, GDP per person in Africa, the Middle East and South America was no closer to that in America than in 2015. Things are particularly grim in Africa (see chart 2). The average sub-Saharan’s inflation-adjusted income is only just above its level in 1970. Consumption remains depressed. Last year domestic savings on the continent fell to 5% of GDP, down from 18% in 2015.



In search of miracles

GDP per person, $’000, 2015 prices

Source: World Bank

Aid is not coming to the rescue. In the early 2000s the unlikely duo of Bono, front man of U2, an Irish rock band, and President George W. Bush argued that the West had a moral responsibility to help the poor escape from poverty. There was no reason to wait for sluggish economic growth to do the job. By 2005 the world’s poorest 72 countries received funds equivalent to 40% of state spending from a combination of cheap loans, debt relief and grants.

Partly as a result, “external resources underpin much of the work of basic health systems from supply chains to drugs,” says Mark Suzman, chief executive of the Gates Foundation, a charity. By 2019 nearly half of clinics and two-thirds of schools in sub-Saharan Africa were built or had workers’ salaries paid by outside cash. The fight against malaria, tuberculosis and HIV, the world’s most deadly infectious diseases, is almost entirely reliant on such funding. Now, however, money is drying up as Western enthusiasm sags and new causes emerge. Today aid provides just 12% of the poorest countries' state spending. Competition for funding will only grow as climate change and rich-world refugee problems become more pressing. Last year, for instance, global aid flows on paper increased by 2%. Yet 18% of total bilateral aid was spent by rich countries caring for refugees on their own soil—a loophole that few countries took advantage of until 2014 (see chart 3). A further 16% went on climate spending, up from 2% a decade ago. In total, the world's 72 poorest countries attracted just 17% of bilateral aid, down from 40% a decade ago. At the same time, Chinese development finance has evaporated. In 2012 the country's state banks doled out $30bn in infrastructure loans. By 2021 they handed out only $4bn.

Whereas development aid has what could be politely described as a mixed record, the efficacy of basic health interventions has been more convincingly established. Thus their absence, combined with low economic growth, is painful. New cases of AIDS and HIV are still falling, but more slowly than before. Much of this is down to the emergence of new clusters of the disease in countries that had been close to eradication. In part owing to the emergence of two new treatment-resistant strains, the number of tuberculosis cases is now once again on the rise.

There is little reason to believe the situation will soon improve. Aid flows are not about to become larger; economic growth is not picking up. How much worse, then, could things get? Many in the development industry used to view aid spending as a sticking plaster to be applied until convergence between the rich and poor world brought incomes in the latter up to speed. Yet Mr Subramanian's calculations suggest that, even at the more impressive growth rates recorded in the early 2000s, it would take the average developing country 170 years to reach just half the rich world's income per person. At current growth rates progress will be considerably slower.

And developing-world finance ministers are short of more than just money. What is remarkable is the lack of ideas—either home-grown or emanating from institutions based in Washington, DC—about how to get growth going again. Economic planning is back in vogue everywhere from Brazil and Cambodia to Kenya, with politicians claiming inspiration from China and increasingly America, too, in a little-noticed side-effect of President Joe Biden's fondness for industrial policy. Their masterplans are often big on manufacturing ambitions, with all the tariffs and handouts you can imagine, regardless of the cost to international competitiveness. World Bank officials note that the governments they deal with are today more focused on boosting jobs than productivity, even if this means receiving investment that is less likely to pay off.

Perky pen-pushers

Politicians often respond to tight budgets by focusing spending on what they believe will ensure re-election, which is mostly protecting civil servants' salaries and public services. Some countries, including Ghana and Sri Lanka, are continuing to splurge on subsidies, even at the risk of fiscal disaster. Although the IMF implores leaders to shrink the size of their states, its dollars are less persuasive today than they used to be. Not only are the economies with which it deals bigger, the fund has also been enfeebled by an insistence on repeatedly lending to countries that refuse to stick to the conditions on which the money is disbursed. Pakistan has, for instance, enjoyed four emergency packages in the past decade, despite the fact that it has failed each time to trim its lavish subsidies.

Having watered down their "neoliberalism" and insistence on tough rules, Washington's institutions have failed to come up with another big idea. So far, their best attempt has been "inclusive growth", which covers matters such as jobs, inequality and sexism, along with more traditional subjects like trade and GDP. But it represents more of a wishlist than a rescue plan, and ultimately lacks rigour. Esther Duflo, a Nobel-prizewinning economist, is blunt: "We can be sure that a lot of [what the World Bank does] is useless."

For their part, development economists are refining smaller and smaller interventions, rather than trying to come up with ideas that might change the world. New research divides into two strands. One produces elaborate theories to explain how capital and workers in the poor world ended up producing less than their rich-world counterparts. Another crunches the numbers to come up with effective micro-projects, as illustrated by Ms Duflo's widely admired work—which, for instance, looks at the impact of the introduction of computers in Indian schools. Researchers in both groups insist their work is only relevant to the countries on which it focuses. "There are just not many big ideas left in development," says Charles Kenny of the Centre for Global Development, a think-tank. "Everything is about the plumbing."

Some think this a tragedy. For others, it is a relief. Ms Duflo reckons that any given small intervention has a better chance of succeeding than an equivalent policy born of overarching economic theories dreamed up in the rich world. On current population trajectories, poor, slow-growing regions of the world will be home to 4bn people by 2040. The question is whether interventions such as Ms Duflo's can be conducted at this vast scale. If they really are the best hope, the welfare of billions depends on the answer. ■