

The Economist

The war on poverty

Fewer, but still with us

The world has made amazing progress in eradicating extreme poverty. The going will be much harder from now on

TO PEOPLE who believe that the world used to be a better place, and especially to those who argue that globalisation has done more economic harm than good, there is a simple, powerful riposte: chart 1, below. In 1981 some 42% of the world's population were extremely poor, according to the World Bank. They were not just poorer than a large majority of their compatriots, as many rich countries define poverty among their own citizens today, but absolutely destitute. At best, they had barely enough money to eat and pay for necessities like clothes. At worst, they starved.

Since then the number of people in absolute poverty has fallen by about 1bn and the number of non-poor people has gone up by roughly 4bn. By 2013, the most recent year for which reliable data exist, just 10.7% of the world's population was poor (the modern yardstick for destitution is that a person consumes less than \$1.90 a day at 2011 purchasing-power parity). Poverty has almost certainly retreated further since 2013: the World Bank's finger-in-the-wind estimate for 2016 is 9.1%. Homi Kharas of the Brookings Institution, a think-tank, calculates that someone escapes extreme poverty every 1.2 seconds.

This is impressive and unprecedented. Economic historians reckon that it took Britain about a century, from the 1820s to the 1920s, to cut extreme poverty from more than 40% of its population to below 10%. Japan started later, but moved faster. Beginning in the 1870s,

the share of its population who were absolutely poor fell from 80% to almost nothing in a century. Today two large countries, China and Indonesia, are on course to achieve Japanese levels of poverty reduction more than twice as fast as Japan did.

Unfortunately, this happy chapter in world history is drawing to a close. The share of people living in absolute poverty will almost certainly not decline as quickly in the future—and not because it will hit zero and therefore have nowhere to fall. Even as the global proportion of poor people continues to drift slowly downwards, large pockets of poverty will persist, and some of them are likely to swell. The war on want is about to settle into a period of grinding battles in the trenches.

Until recently the world's poorest people could be divided into three big groups: Chinese, Indian and everybody else. In 1987 China is thought to have had 660m poor people, and India 374m. The concentration of destitution in those two countries was in one sense a boon, because in both places better economic policies allowed legions to scramble out of poverty. At the last count (2011 in India; 2013 in China) India had 268m paupers and China just 25m. Both countries are much more populous than they were 30 years ago.

Some of the decline in poverty in China and India is artificial, caused by more accurate household surveys and new estimates of purchasing power. But most of it is real. In both countries, economic growth has benefited the poor as well as the rich, peasants as well as city-dwellers: the magic ingredient in China's poverty-reduction formula since the 1980s has been not its factories but its highly productive small farms. Much the same is true of other Asian countries. Carolina Sanchez, a manager at the World Bank, is particularly impressed by Bangladesh, where many sparsely educated women have been able to find good jobs in textile factories.

These days about four-fifths of all extremely poor people live in the countryside, and just over half of them live in sub-Saharan Africa (see chart 2). Africa is as studded with examples of failure as Asia is filled with success stories. Look at Nigeria, says Kaushik Basu, an economist at Cornell University. In 1985 the share of Nigerians below the international poverty line was estimated to be 45%—a lower proportion than in China or Indonesia. Now Nigeria has a much higher share of poor people than either country. The World Food Programme, an arm of the UN, is sending bags of grain to the lawless, hungry north-east.

Sub-Saharan Africa is not actually going backwards. Its absolute poverty rate has fallen from 54% in 1990 to 41% in 2013. But because Africa's population is growing so quickly—by about 2.5% a year, compared with 1% for Asia—and because the poverty rate is declining only slowly, the number of poor Africans is higher than it was in the 1990s. With more destitute inhabitants than any other region, sub-Saharan Africa now drives the global poverty rate.

Working towards welfare

That is bad news, because African poverty is particularly intractable. The first problem is that economic growth has been weak, considering the continent's swelling population. According to the IMF, since 2000 GDP per head at purchasing-power parity has doubled in sub-Saharan Africa; in emerging Asia it almost quadrupled. Oil-producing states such as Angola and Nigeria have gone through booms that have done little to cut deep poverty—and, anyway, have been followed by busts.

A second problem is that many African governments are flimsy, incompetent, authoritarian or rapacious. The OECD, a club of mostly rich countries, counts 56 places in the world as "fragile"—mostly countries, but including the West Bank and Gaza Strip. Fully 36 are in Africa. The continent is not as ravaged by war as it was in the 1980s

and 1990s, but it still has some disastrous countries, such as the Democratic Republic of Congo and South Sudan, and a larger number that occasionally lapse into political violence, such as Ivory Coast and Kenya. Violence both creates poverty and distracts governments from the work of dealing with it.

The third problem is that poor people in Africa are commonly very poor indeed. Compare Rwanda with Bangladesh. Both are low-income countries; both are reasonably competently governed; both have grown well in the past few years. But Rwanda's poor are much poorer than Bangladesh's. Many get by on around \$1 a day (see chart 3). Suppose, says Laurence Chandy of UNICEF, that Rwanda experiences 5% growth per head every year for ten years and this growth is spread evenly. At the end of that impressive run, a quarter of Rwandans would still be below the absolute poverty line.

Rwanda is in a worse position than Bangladesh—except in one sense. Because it has a large lump of people below the \$1.90 poverty line, Rwanda ought to be able to pull ever more people over the line for every point of growth (assuming the growth is evenly spread). In Bangladesh the opposite is true. It has a lump of people who are just clear of poverty and a diminishing proportion just below the line who can easily be pulled over. Bangladesh has made excellent progress against poverty so far. It will probably make slower progress from now on.

India is in a similar position to Bangladesh, points out Mr Basu, who used to be the chief economic adviser to India's government. With huge numbers of people who are barely out of poverty, it now needs to prevent near-paupers from falling back, while also dragging the poorest out of destitution faster than economic growth alone could do the job.

In short, India and countries like it need proper welfare systems. They are still some way from getting them. In general, government

spending is a smaller share of GDP in lower-middle-income countries than in poorer or richer ones. South Asia is especially mean compared with Latin America. In 2014 India spent just 0.7% of its GDP on social safety-net programmes. Three years earlier Brazil had spent 2.4% of its GDP on such programmes. And half of India's spending went on rural public-works projects and feeding children in schools. Brazil's payments were nearly all cash transfers, which are more efficient. India has trimmed some spectacularly ill-targeted handouts, such as fuel subsidies, and is musing about a universal basic income, made possible by its biometric identity system, which now covers an astounding 1.1bn people. But that is still talk.

As extreme poverty disappears everywhere except in Africa and in Asian countries with weak welfare systems, the campaign to eradicate it is likely to slow down. The World Bank reckons that about 4% of the world's population will still be poor in 2030 if economies continue to grow as quickly as they have in the past ten years and poor people's incomes grow at the same rate as everyone else's. The number of poor people might even rise a little.

The last-mile problem

After decades of astonishing progress, a spell of sluggish poverty-reduction would be a great disappointment. Among other things, it would probably mean a prominent target being missed. In 2000 the members of the UN agreed to try to cut poverty to half of the 1990 level by 2015. Progress was so quick that the world got there at least five years early. So two new targets have been set—the first of a long list of “sustainable development goals”. The world is now supposed to cut the absolute poverty rate to 9% by 2020 and 3% by 2030. The first of these targets can and probably will be hit. The second looks out of reach.

Still, a global target for reducing absolute poverty seems increasingly beside the point, because poverty is less and less global. In the mid-19th century every continent had a large population of poor people. Now, after absolute poverty has been virtually eradicated in one

region after another—Europe, North America, Latin America and now East Asia—it has become a plague specific to South Asia and sub-Saharan Africa. It seems likely that poverty will become ever more African.

It is possible to imagine a future in which the global poverty rate continues to drop even as poverty becomes more entrenched in a few unlucky countries, scarred by war and bad government. That would be a huge improvement on the past, but hard to cheer. A broadly poverty-free world, but with sad, durable exceptions, is not good enough.