Chapter 3

Freedom from Poverty: New Directions in Economic Development

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Technology and politics are rapidly changing how economic development happens and who benefits from it. In the past decade alone and across the world, better information systems and more citizen participation have transformed the accountability ring around governments, our understanding of economic management, and the tools we use for social policy. This has many consequences, from how science is built into policies to how foreign aid should work. It has put the emergence of Africa in motion. And, more generally, it has brought the end of poverty within reach.

Admittedly, there are many risks, both short-term and long-term. The world is still trying to recover its balance after the global financial crises of 2008–2009. Conflict ravages entire nations and regions. Several rising-star economies have recently lost their luster. A few countries seem stuck in ruinous ideologies. Farther in the horizon, coordinated international action to tackle environmental protection, financial stability, or cross-border corruption remains as elusive as always.

Those risks, however, cannot mask a new reality: Economic development and the poverty reduction that goes with it have never been more possible for more countries. This essay explains why. It argues that the pressure on politicians to perform is rising. It describes how behind the divergence in economic cycles—countries growing at different speeds—there is a strong convergence on economic principles. It claims that inclusion is now doable and affordable: Societies have no reason to leave anyone behind. And with all that in mind, it advocates for more—not less—foreign aid, but of a very different kind.

GOVERNMENTS: BEGINNING TO WORK FOR YOU

Today, presidents, prime ministers, and cabinet officials from the developing world are being held more closely accountable, measured against more precise parameters of performance, and evaluated with more rigor than ever before. This trend, which is bound to intensify, is particularly good for economic development.

The accountability framework for the new generation of leaders is defined by four "Ds"—democracy, decentralization, devices, and debt. The possibility of voting politicians out of office is much more common than it was only 20 years ago. Despite the fact that many "democracies" still fail to produce any actual alternation of power, the rise of political contestability is undeniable. Even in one-party systems, there is a real sense that someone else could take power if, say, the economy does not grow fast enough, graft is exposed, or the poor riot. That makes life a lot more difficult for incumbents and pushes them to manage more sensibly.

It is not only officials in the capital city who feel the pinch of political contestability. The provision of public services like education, health care, or security is increasingly the responsibility of governors and mayors. This decentralization of government functions down to states and municipalities has made it much easier for users to complain when things do not work: After all, local authorities are less likely to travel in armored caravans and more likely to live nearby. In fact, a decent track record at the "subnational" level is becoming a prerequisite to be eligible for the national stage.

Proximity to decision-makers has encouraged people to protest, and various devices have made protesting almost effortless. From a laptop, a tablet, or a smart phone, and with a text, a tweet, or a post, you can now inform and mobilize masses in a flash at zero marginal cost. The collective action problem that made social activism expensive and time-consuming is gone. From abuse of power to power blackouts, citizens can name and shame those responsible—and demand answers. Communication technology is speeding government accountability into real time. Tellingly, nowhere is the adoption of that technology faster than in Africa.

Then there is debt. Citizens in the developing world have found in bondholders unexpected allies in monitoring government performance. Both emerging and developing countries are active participants in the sovereign debt markets. In the past five years, even low-income nations—from Honduras to Rwanda—have begun to issue bonds; some $12 billion worth of these "debut" bonds is trading in London and New York. Any news of deviation from sound economic management triggers a visible and immediate fall in bond prices. The cost of borrowing rises together with the political embarrassment. This is accountability by spreads, and there is no way out of it—short of full debt repayment.

What has made the four "Ds" especially effective is the proliferation of more user-friendly performance "standards" against which civil servants can be held accountable. Take education. Every child at the end of second grade should be able to read at least 60 words per minute. That's a standard. Governments and teachers unions can argue *ad nauseam* about budgets, salaries, and working conditions, but the bottom line is simple: Can the average second-grader read 60 words per minute or not? If not, parents can—and should—complain. The same types of standards are available for most public services, from vaccination to justice. As more data are gathered from around the world, more standards are being defined, and we are getting to know what results we should expect from those who govern us.

Finally, the noose of accountability is being tightened by progress in another technical field: impact evaluation. For every public policy, program, or project, it is now possible to evaluate not only its inputs, outputs, and outcomes, but also its impacts—that is, the subset of the outcomes that would not have happened had the government not intervened. New techniques like "randomized controlled trials" and new ways to break down the data like "benefit incidence analysis" are making it possible to assess what governments do with more scientific rigor and less ideological bias. For example:

- What is the impact of subsidizing gasoline, which is mostly consumed by the rich?
- Does land titling really raise productivity among poor farmers?
- Are breakfast programs improving nutrition among schoolchildren?
- Does more access to information on the quality of public services lead to more social militancy?
- Is friendlier enforcement the key to larger tax collection?

We can now get answers to these sorts of questions in specific country contexts, and sometimes the answers are embarrassing enough to trigger reform. No wonder that impact evaluation in its many forms, and despite its many critics, has become the methodology of choice in the new development economics. (You may still be wondering: What government in its right mind would use taxpayers' money to pay for the gasoline consumed by the rich? Many do—and spend more on it than they spend on primary schooling for the poor.)

ECONOMIC POLICY: THE ORTHODOXY BEHIND THE HETERODOXY

A country-by-country reading of recent macroeconomic data suggests a wide divergence of cycles and policies within and across trading blocs and income levels. In 2015, we have seen the U.S. economy grow again and U.S. policymakers pondering when to raise interest rates and by how much. The European Union has struggled with major fiscal and financial differences between its core and its periphery, and its central bank has pledged to keep interest rates close to zero for as long as it is necessary to recover growth. Japan tried firing its "three arrows"—fiscal stimulus, monetary expansion, and structural reform—but is barely growing.

Meanwhile, the so-called BRICS countries (Brazil, Russia, India, China, and South Africa) have moved in a myriad of directions:

- Brazil is dealing with a mix of recession and inflation;
- Russia is under financial distress due in part to the collapse in oil prices and in part to geopolitics;
- India is booming on the expectation of structural reforms and the windfall from cheap oil;
- China is slowing down while it accommodates itself to a "new normal" of more consumption and less investment; and
- South Africa maintains its low but steady rate of economic growth.

Elsewhere, oil-exporting countries have suffered a major loss of nominal income, while many low-income countries have felt confident enough to tap the international bond markets for the first time.

This global divergence in macroeconomic performance has opened the door to plenty of experiments and some new thinking in macroeconomic management. Several rich countries have promised to print money in whatever amounts it takes to make credit almost costless. Some are trying "macro-prudential" regulation—a dynamic way to rein in financiers so they do not take risks that can harm the economy as a whole. A handful of observers have advocated massive public investment programs financed by a surge of public debt. Those nations that are sensible enough to have saved during good years are now told to break into their "sovereign wealth funds" and spur consumption. The list goes on.

But behind the creativity in dealing with short-term cycles, few question the basic tenets of a sound macroeconomic framework, without which fast and sustained growth cannot happen in the long run: balanced budgets; low public debt; independent and professional central banks; open trade; smart regulation; and fair treatment of investors—big or small, foreign or local. These are no longer just the precepts of multilateral organizations or technical consensuses. They are what voters implicitly expect when they demand stability of prices, deposits, and jobs. No wonder that it is getting more difficult to be elected to high office claiming that "fiscal deficits don't matter," or proposing to close the economy so that "we live only off our own resources," or pretending that obstacles to private investment do not affect employment.

This last point is crucial for developing countries, as technology is turning foreign investment and foreign trade into two sides of the same coin. The emergence of global value chains means that final manufactured goods are increasingly the result of the assembly of components and services produced in many countries. When you buy a Japanese car, a Chinese computer, or a Mexican refrigerator, chances are that you are buying pieces designed, made, and shipped in and across a dozen different places.

By some estimates, more than half of all international trade currently takes place within a global value chain, but to be invited into the chain, suppliers need to be competitive in cost, quality, speed, and reliability—as failure to deliver affects everyone along the chain. This means that countries that cannot provide, at a reasonable price, sufficient labor skills, logistical infrastructure, and contractual security lose out on both investment and trade. The price in terms of forgone employment is huge.

Progressive governments have understood this and help their private entrepreneurs join and climb value chains. They see this as the only path not just to more jobs, but also to better jobs. They remove barriers that make national producers unable to compete abroad and favor public–private partnerships over unilateral public action. They stay away from costly protections and privileges and are usually guided by a well-thought-out national development strategy. They are more likely to inform and facilitate businesses than to control or own them. Their resolve has been bolstered by another realization coming from countries rich in natural resources: The extraction of oil, gas, or minerals pulls in investments that are large and resilient but employ relatively few workers.

SOCIAL POLICY: NEW WEAPONS FOR AN OLD WAR

Tighter accountability is slowly bringing governments to a higher level of performance. Technological progress is bringing them closer to knowing the poor by name, individually, one by one.

This started in Mexico in the mid-1990s with the introduction of "conditional cash transfers" of money to mothers living in indigence as long as they kept their children in school and visited clinics when pregnant. The idea made no political sense: Why should a party that had been in office for seven decades provoke a social debate over widespread poverty? And there was fear that once the poor received the cash, they would slack off and end up worse off. The Mexicans did it anyway, and soon all eyes turned to the impact of the conditions.

In retrospect, conditionality mattered less than identification. The transfers forced civil servants to reach out and meet the poor and to set up the logistics for the transfer—at the time, pickup trucks that drove into remote communities. To their surprise, many of those poor did not legally exist: no birth certificates, IDs, property titles, contracts, or voter registration cards. These people were not just poor; they were also excluded.

Today, 70 developing countries, 35 of which are in Africa, make direct cash payments to their citizens in need. The technology for individual identification and financial transfers is getting faster and cheaper by the day. India has shown that half a billion people can be biometrically identified in about five years at a cost of around $4 per person. Thousands are queuing up to be identified. This is inclusion by technology. And, of course, cash transfers no longer need a pickup truck. They can be done at a point of sale, with a debit card, or via cellphone—as Kenyans are showing with gusto.

All of this has led to new ways of fighting poverty with tools that were unthinkable a decade or so ago.

First, vast information about the poor is being collected. You get baseline data (where they live, how much they earn, how many children they have) when they register for the transfer and real-time data (what they consume, pay, and need) every time they spend the money. This helps authorities to target, design, and monitor assistance programs with less duplication and less "leaking" toward those who do not need them. Think of it as the Google of social policy: Every intervention creates data that, properly processed, can increase the chances of success for the next intervention.

Second, we can now listen to the poor. The same cellphone that is used to transfer cash can be used for continuous panel surveys—that is, to follow the same individual or household over time and ask questions when things change. Questions like "You told us that corn is your family's staple food. The price of corn has doubled. Are you eating less?" or "Two years ago you told us you had a ten-year-old daughter. Has someone spoken to her about reproductive health?" can help you react to a short-term crisis or prevent a long-term one. Mexico, again, has shown how. When Wall Street imploded in 2008–2009, the Mexican economy fell into a sudden and deep recession. The government reacted immediately by increasing the size of the cash transfers to the five million poorest families who were bound to suffer the most—a move that may have saved the country from serious social unrest.

Third, knowing the poor individually and being able to reach them financially can help redirect funding from the supply of to the demand for public services. This is the "school voucher" concept: We give you the money, and you choose the school. The recipient, not the government, decides whether to use a public or a private provider. The same principle can be used with other public expenditures. Countries like Chile, China, Georgia, and Nigeria, for example, are using it as part of their drive toward universal health coverage. The idea may not work where there are not enough suppliers from which to choose—for instance, in remote rural areas—but it holds promise for many poor people who have long been at the mercy of underperforming social programs.

Fourth, there is no longer a need to subsidize those who do not need subsidies. Why should the government use taxpayers' money to keep down the price of gasoline, electricity, or water if that mostly benefits the rich? Why not let prices reflect costs and use the savings for more and better assistance to the poor? Untargeted subsidies are fiscal aberrations that have survived on the premise that it was impossible to target them—an excuse crushed by information technology. Their removal is now a question of political will, as Indonesia, Malaysia, and Morocco have shown.

Fifth, it has become possible to turn citizens into shareholders of their countries' natural wealth. Until recently, the practice of distributing among the population a portion of the rents coming from the extraction of oil, gas, or minerals was seen as doable only in advanced economies: Developing countries did not have the capacity to do what Alaska has been doing for decades. That has changed. If a government can transfer cash, it can also transfer dividends. The only difference is the link to a contingent source of funding: no profits, no dividends. One can debate whether or not the distribution should be universal—the rich are citizens too—and it is true that in many cases, the size of the dividend may not be large. But for many, it could make the difference between poverty and no poverty. Available estimates show that in countries like Angola, Equatorial Guinea, and Gabon, a tenth of the resource rents recorded in the fiscal accounts would suffice to raise the income of every poor person up to the national poverty line.[2]

Would direct dividend payments mean fewer public services for the poor as money is taken away from governments? Not necessarily. On the one hand, the history of the use of resource rents in developing countries is not a happy one. Many naturally super-rich nations show dismal development outcomes. Their plight is not due to a lack of money, but to a lack of governance. On the other hand, shareholder-citizens are likely to scrutinize more closely how resources are used: Their dividends depend on it. So it is at least conceivable that making people participate directly in the fruits of extraction could actually increase the quantity and quality of services in public schools, hospitals, or courts, even when less money is spent on them.[3]

A final observation on the new, individualized way to fight poverty: Many have rightly criticized it for its potential to create dependence and clientelism, especially where monitoring and evaluation are weak, but nobody denies that it is surprisingly cheap. Relatively, the largest and most expensive direct cash transfer program in the world is Brazil's *Bolsa Familia*. It covers one in four Brazilians, yet it costs less 0.5 percent of GDP per year. This is a fraction of what governments currently spend on subsidies captured by the rich, which in some countries tops four percentage points of GDP or more. In other words, smart social assistance and the social peace that goes with it will not cause fiscal bankruptcy.

FOREIGN AID: TIME TO ADAPT, NOT QUIT

What do the new trends in economic development mean for foreign aid? It depends on who you ask. Critics argue that government-to-government charity—all $120 billion a year of it—has become borderline useless, probably counterproductive, and should be abandoned.[4] They see it as a decaying way to dominate former colonies, impose models and values, subsidize the donors' contractors and consultants, take care of security concerns, and prop up dictators. They question the value added of international organizations like the World Bank, the International Monetary Fund, and their regional peers: What can they provide that markets or think tanks cannot? And they point to an inconvenient truth: After 50 years and some $3 trillion in aid, more than a billion people still live in extreme poverty.

In contrast, supporters claim that this is a time not to give up, but to scale up: to go from "billions to trillions." They can point to plenty of countries that have made or are making the transition to high- or middle-income status, from Malaysia and Poland to Peru and Botswana. They can show the value of global action on single issues like debt relief or HIV/AIDS. And while a billion people are still in extreme poverty, more than half a billion others managed to rise out of it in the past decade alone. Why quit now? Better to stay the course, double the effort, and get the job done within a generation or two.

Interestingly, both camps are right. The space for "old aid"—cookie-cutter projects and reports imposed from abroad with little local ownership—is shrinking fast. Developing countries now have direct access to funding and knowledge, either of their own or from the market. The financing that any one bilateral donor or multilateral organization can provide is not much larger than a rounding error in the gross borrowing plans of middle-income countries like Brazil, China, Colombia, India, Mexico, or South Africa. And the bread-and-butter development knowhow sits on the Internet, ready to be downloaded for free. The monopoly of development finance and expertise exists no more.

This, however, does not mean the end of foreign aid. It only points to a new type of aid for which there is a booming demand. Today, developing countries, even the most advanced among them, call on external assistance if and when it can help them solve problems that they cannot solve by themselves, either at the national or global level. The calls are rarely about building schools, clinics, or ports; countries have the cash and the skills to do that by themselves. Rather, they are about making secondary school curricula more relevant to employers, regulating suppliers of health insurance, or building public–private partnership in logistics, all of which are complex problems for which there are no textbook answers. So the demand is for experiences, both good and bad, from around the world that can help these countries design and carry out reforms at home.

Agencies that can credibly distill and deliver those experiences at short notice are hotly sought after. Their funding may come into the picture not as a financial necessity, but as a vehicle to get support during implementation. The traditional donor who just offers grants for run-of-the-mill projects is still welcome—no developing country refuses a gift—but may have little impact. From the viewpoint of the recipient, the future of aid is more in ideas than in money.

The new solution-driven aid is particularly useful in dealing with global problems, many of which were not on the development agenda only a few decades ago. From environmental protection to financial stability, from money laundering to endemic conflicts, individual countries cannot make much difference on their own. They need to work together, and aid can be an effective way to push for collective action: for example, by defraying its cost to poor countries. Yes, international coordination has never been easy or rapid, but it is still the best bet we have.

THE TAKE-HOME MESSAGE

This essay has argued that, over the past 10 years or so, politics and technology have converged to make economic development and the poverty reduction that goes with it more possible for more countries than ever before.

People are holding their leaders more accountable than before and getting to know what to expect of them. There is also a broad recognition of what is necessary for economic growth to happen (or at least what derails it). Our societal attitude toward exclusion is changing—few now think that we can indefinitely ignore the pain of those who live in misery—and the sense that we can do nothing to help others abroad has proven false.

This optimistic view of the world is not without risk; disasters, natural or otherwise, could very well throw us off course. It may not apply everywhere right away; examples abound of countries zig-zagging or reversing. But the overall trends are clear.

Fortunately, the telltale signs of progress or lack of it will be quite visible. On the one hand, ushered by the United Nations, the international community has committed to monitoring 17 "Sustainable Development Goals" and over 160 "targets," which it promises to reach by 2030. On the other hand, we will see progress—or not—in the quality of our public services; in the opportunities available for youth, women, and the disadvantaged; in the speed of environmental degradation; and in the number of economies that become success stories, especially in Africa.

But, most of all, we should see the results in the poverty headcounts. We will know soon enough whether freedom from poverty is a dream or a reality.

ENDNOTES

1. Marcelo Giugale is Senior Economic Adviser of the World Bank's Cluster of Global Practices for Equitable Growth, Finance, and Institutions and a fellow of the National Academy of Public Administration. This essay is adapted from his address at The Heritage Foundation on June 4, 2015, and is based on his book *Economic Development: What Everyone Needs to Know* (New York: Oxford University Press, 2014). The views expressed in this essay are the author's own and do not necessarily represent those of the World Bank Group, its Board of Directors, or its member countries.
2. Marcelo Giugale and Nga Thi Viet Nguyen, "Money to the People: Estimates of the Potential Scale of Direct Dividend Payments in Africa," Center for Global Development *Policy Paper* No. 043, May 2014, http://www.cgdev.org/sites/default/files/money-people-estimates-direct-dividend-payments-africa.pdf (accessed October 1, 2015).
3. Shantayanan Devarajan and Marcelo Giugale, "The Case for Direct Transfers of Resource Revenues in Africa," Center for Global Development *Working Paper* No. 333, July 2013, http://www.cgdev.org/sites/default/files/direct-dividend-payments.pdf (accessed October 1, 2015).
4. See, for example, Angus Deaton, *The Great Escape: Health, Wealth, and the Origins of Inequality* (Princeton, NJ: Princeton University Press, 2013).