Why do some countries stay poor?

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A Brief History of Income

- For most of economic history, nothing happened
- UK eventually established security, inclusive politics, technology => 60 fold increase
- China able to grow faster by using existing technology
- Development is a process of **escaping traps** (Tanzania => ~2 fold increase)
The Biggest Economic Change in History

[Diagrams showing economic distributions for different regions in 1975 and 2015]
Convergence is what matters in the long run

- East Asia makes strong progress towards OECD frontier.
- Slow but steady progress in South Asia from lowest level.
- Latin America makes progress after 2003 (debt crisis, commodity recovery) but falling again.
- Extremely slow progress in Sub-Saharan Africa, flat since 2015.
Extreme poverty is ending in Asia

- The proportion of those in extreme poverty has significantly fallen nearly everywhere.
- Due to population growth, the overall number of Africans in absolute poverty has not yet fallen (~400 million).

![Numbers of People living under $1.90 (millions)](chart)

*Source: World Bank PovCalNet; projections from CEOFF poverty model*
The tough cases

- 95% of extreme poverty is projected to be in 26 (+AFG,SOM,SSD,ERI) countries by 2040
- All bar 7 are classed as fragile (Malawi, Benin, Togo, Rwanda, Senegal, Burkina Faso, PNG).
What keeps these 400 million people poor (and these nations fragile)?
Trap 1: Demography

- High population growth increases poverty numbers and associated with slow headcount reduction
- Africa’s population doubled in last 26Y, will double again by 2050 (2.5 billion)
  - Urban population will triple
  - Migrant labour supply: Africa grows from 1.7x Europe to 3.5x by 2050
- Faster demographic transition → poverty, incomes, urbanisation, security, migration
Trap 2: Lack of effective firms

- Effective firm = productivity through economies of specialisation and scale
- Since 1200, output per person in the UK has risen ~50x
- Habitat for firms is difficult to create but possible (Ethiopia, Rwanda, Bangladesh, Ghana)

- Most tough cases rely on a few FDI extractives companies to create the multipliers that drives nearly all other economic activity. (SSA exports to RoW are ~50% oil)
- Ideal are exporting firms that create jobs and have an upgrade path
Undiversified commodity economies

- **African econ. models of undiversified commodity exports** will almost certainly not deliver the growth, jobs, and stability required to escape poverty.
- **Automation** may make this even harder.
Max Weber (1919) - State as single actor
- Monopoly on violence
- Able to project policy over territory
- Professionalised, impartial civil service
- Acts like a benevolent social planner
- Development prevented by lack of know-how and finance

Douglass North (2011) - State as multiple actors
- Multiple groups using violence
- Not able to project policy over territory
- State maximizes rents by limiting access to resources and opportunities
- Dominant group shares rents with other elites to lower violence (elite-bargain)
- Development prevented because it destabilizes the elite-bargain.
The extreme poor may be with us a while

- Depends on context so diagnostic approach is helpful
- Most common syndrome:
  - Political order prevents an inclusive economy and civil society from emerging

- Tempting for externals to become the service deliverer

- Better to nudge/repair/(build) the “system” so that the historical forces can act:
  - Enable non-violent elite-bargaining (from South Sudan to Malawi)
  - Build legitimacy in small steps (delivery -> legitimacy -> compliance -> delivery)
  - Create incentives for rival groups to share power
  - Build security (peacekeeping, DDR)
  - Build the economy (export FDI, buy Africa!)
  - Strengthen societal demands (accountability, media, transparency)