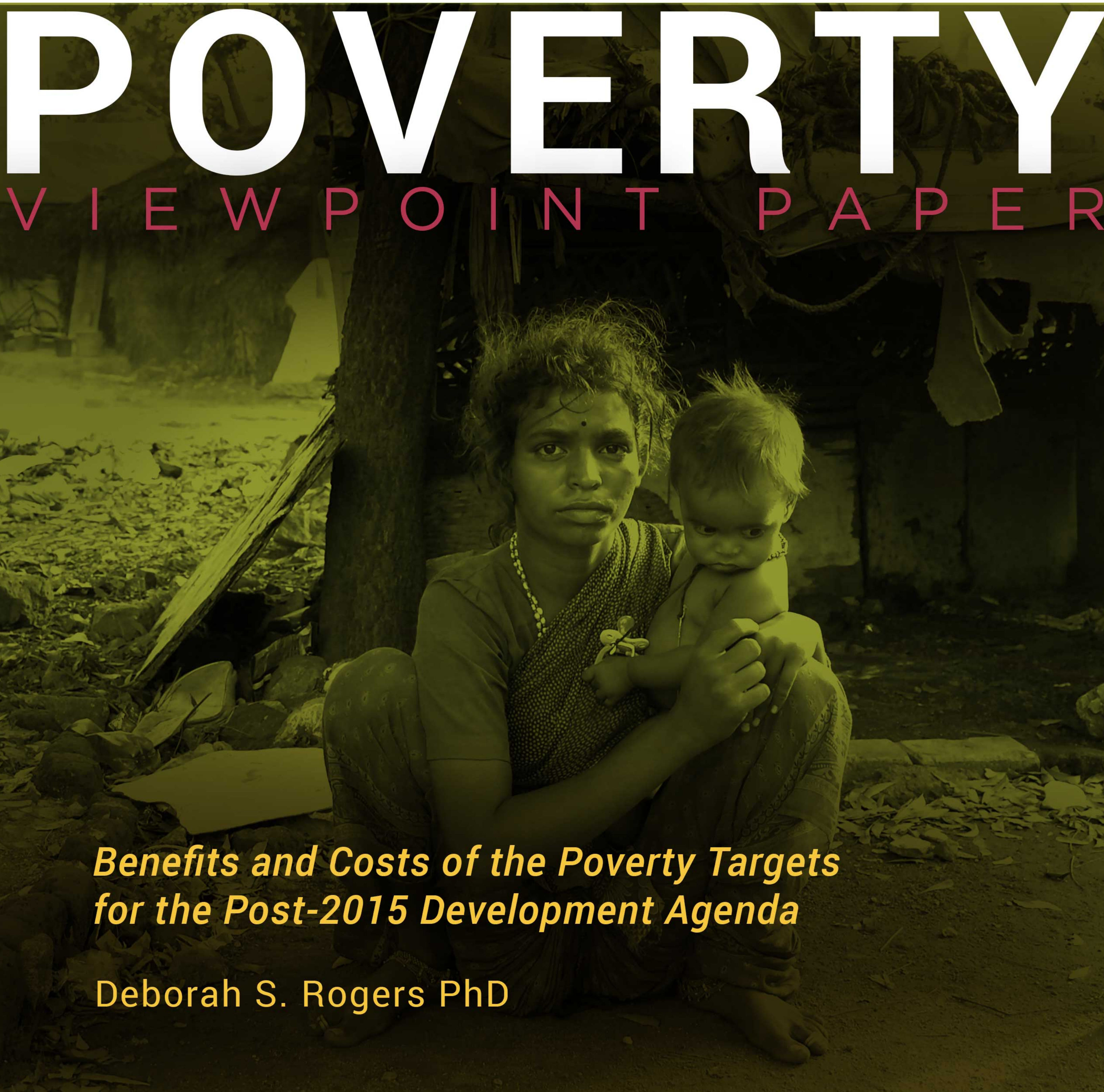
COPENHAGEN CONSENSUS CENTER

POVERTY

VIEWPOINT PAPER



Benefits and Costs of the Poverty Targets for the Post-2015 Development Agenda

Deborah S. Rogers PhD

Benefits and Costs of the Poverty Targets for the Post-2015 Development Agenda

Post-2015 Consensus

Deborah S. Rogers
Institute for Research in the Social Sciences, Stanford University

Working Paper as of 15 December, 2014

Insanity, Rationality, and Values:
Comments on the Goal 1 Poverty Targets

A popular definition of insanity is "doing the same thing over and over, and expecting different results." By the same token, the economic approach which brought us intractable poverty and rising inequality is unlikely to be helpful in solving these problems. The solution taken in John Gibson's review paper, *Evaluation of Proposed Post-2015 Poverty Targets*, is to keep doing the same thing – but to stop expecting new results (Gibson 2014). Although this is clearly more rational than expecting different results, those of us who want to see a transformative post-2015 development agenda that "leaves no one behind" cannot opt out so easily. We are looking for new, more inclusive economic approaches that can alter the incentives, financial flows, policies, structures, and institutions that have resulted in intractable poverty and ever-growing inequalities.

It would be nice to think that everyone working on issues of sustainable development has the same basic goals in mind, differing only on questions of approach. Behind every argument, however, are assumptions and values that are as fundamental to the conclusions as are the empirical facts presented. In the case of the neoliberal economic model, these assumptions and values revolve around the maximization of utility and profit, and the belief that tampering with the market system will lead to harmful outcomes which may destabilize the economy and reduce economic growth, tenuous as these may be.

There are several major problems with applying this theory-bound perspective to the challenges of sustainable development. First, it fails to assign value to anything that has not been brought into the monetized economy, including nature and the environment, human relationships, and forms of human labor that are generally uncompensated (e.g. caregiving and domestic labor). Second, it fails to assign costs to many of the harms impacted by the market but externalized as outside the economy, including climate change, ecosystem collapse, degrading physical and mental health, social breakdown, and conflict. Finally, it sets artificial boundaries on the solutions that can be sought – refusing to acknowledge that viable solutions may require systemic changes to our current economic approaches.

These three problems are clearly exhibited in Gibson's *Evaluation of Proposed Post-2015 Poverty Targets*. Such theory-based assumptions stand in direct contrast to a more pragmatic approach, which assigns values and seeks solutions wherever they may have a reasonable chance at achieving jointly shared goals. While some might argue that the jointly shared goals which underlie the proposed poverty reduction goal and targets are arbitrary, the same may be said of the assumptions Gibson makes in his cost-benefit calculations. In particular, Gibson's review:

- ignores most of the costs of poverty and inequality,
- grossly underestimates the benefits of their reduction – only calculating the monetary increase in "human capital",
- exaggerates the problems with social protections mechanisms used to reduce poverty,

- ignores the same problems when they are associated with globalization and growth, and
- dispenses with any solutions that contradict his preferred economic model.

For these reasons, Gibson is able to conclude that four of the five the proposed targets under *Goal 1. End poverty in all its forms everywhere*, except for the target of reducing extreme poverty, do not have positive benefit-to-cost ratios and thus should not be adopted.

A different set of assumptions and values underlie my support for the proposed targets:

- I feel no loyalty to any particular economic model. I'm happy to adopt approaches that achieve the goals, regardless of their ideological linkages, and am willing to work around problems that arise in the course of trying new approaches. A recent analysis of poverty reduction in developing nations over the past several decades finds this non-ideological pragmatism to be a common element among the countries that managed to make substantial progress on poverty reduction (UNCTAD 2014, p 109).
- I find it impossible to discuss poverty outside the context of wealth and inequality. The empirical evidence shows that poverty is inextricably linked to economic, social and political inequalities.
- I assign value to things that make life worth living and the world a beautiful and well-functioning place, regardless of whether they have been monetized or not. Can the value be quantified? Sometimes, but often not. Do we need to place our cost-benefit calculations in the context of these values? Absolutely.

Given these assumptions, my analysis of the same empirical evidence reviewed by Gibson leads me to the opposite conclusion: that the targets proposed under Goal 1 are reasonable and achievable, and could even be strengthened. In this essay I summarize my reasoning on the first three targets – eradicating extreme poverty, reducing poverty as nationally defined, and implementing social protections for the poor and vulnerable.

Eradicating extreme poverty

Choosing to eradicate extreme poverty is not a technical finding, the conclusion of an argument, or the outcome of a cost-benefit analysis. It is a fundamental value. We either find the suffering caused by extreme poverty abhorrent and choose to end it, or we do not.

If we want to quantify the benefits associated with eradicating extreme poverty, we need to first calculate the costs of extreme poverty; these, then, become the benefits which accrue as it is eradicated. A simple calculation of lost work productivity or human capital is insufficient. The costs are extensive, including poor health, domestic violence, mental illness, substance abuse, crime, incarceration, difficulty in maintaining economic stability or growth, loss of creative contributions, lack of trust, social breakdown, conflict, inability to achieve collective solutions due to lack of social solidarity, and many other well-documented outcomes of inequalities (c.f. ASAP 2014; Cingano 2014; Rogers 2013; UNICEF & UN Women 2013; Wilkinson and Pickett 2010).

Next we need to look at the costs and effectiveness associated with the various possible approaches to poverty eradication. Within nations, these methods include cash transfers, social protections floors, public jobs creation programs, public and private investment to stimulate pro-poor economic growth, policies to restructure the economy towards more productive sectors while ensuring the availability of decent work for all, steeply progressive taxes, and more. The most effective and efficient mix of approaches will differ from country to country, depending on national circumstances and what is politically possible.

As Gibson rightly said in his review of the poverty goal, "The difficulty for policy makers is that reducing inequality, in order to eradicate poverty, can create distributional conflicts and may be viewed as a zero-sum game. In contrast, economic growth can be presented as a positive-sum game and so growth-oriented policies may be subject to fewer rent-seeking losses than occur with attempts at redistribution." (Gibson 2014, p 29). But despite the political unpalatability of redistributive spending to those who will be expected to pay, if we are serious about ending extreme poverty, this is the fastest, most efficient way to get the job done.

Indeed, it has been pointed out that the top 1 percent of individuals now own approximately half the world's wealth (Fuentes-Nieva and Galasso 2014). The richest 100 individuals in 2012 added $240 billion to their wealth – enough to end world poverty (at the $1.25/day level) four times over (Oxfam, 2013). Clearly this is where the financial resources to reduce poverty are located.

In addition to national efforts, the success and costs of poverty eradication depend on the willingness of the international community to contribute aid, favor the poorest countries in trade and tariff agreements, provide debt relief, bring the abusive practices of multinational companies under control, establish financial transaction taxes globally, and end illicit financial outflows and tax avoidance.

In short, once the decision has been made to eradicate extreme poverty – based on commonly held human values – then all potential solutions must be put on the table without regard to ideological affinities, and the complex cost-benefit analysis for each combination of approaches can be made for each country and for the international community as a whole. A more thorough discussion of the efficacy of redistribution is provided in the last section of this essay. Yes, the costs of getting serious about eradicating poverty will be enormous. But if we do not, the ongoing economic and social costs, loss of human potential, and raw human suffering will be even more unacceptable.

Reducing poverty as nationally defined

The proposed target to cut poverty in half, as nationally defined, merits the same thorough cost-benefit analysis as suggested for extreme poverty. In this case, the reasons are less about abject suffering and more about the multitude of physical, emotional, social, economic and political ills that come about from having an underclass. Where almost everyone lives a similar life, even if resources are very limited there is generally no stigma attached and no insurmountable odds in finding ways to meet one's daily needs. But where there are sharp inequalities, a host of psychological, social, political and economic difficulties arise, making life much more difficult for those on the bottom end, and more uncomfortable for those who are well-off. These problems are well-documented (see citations in the preceding section), and affect the rich as well as the poor.

In fact, the concept of poverty is relative, not absolute, which is why the definition of poverty must vary from country to country. The fact that there is no common numeric definition creates space for a needed dialogue in each society as to who is economically, socially and politically excluded; why; and how to change the situation.

It may be more difficult to eradicate moderate poverty than it is to eradicate extreme poverty, for a number of reasons:

- the numbers of people can be much greater,
- the amount of additional income required to escape moderate poverty can be much greater than that for extreme poverty,
- it is less shocking and therefore does not elicit the same level of commitment by societies,
- there are strong belief systems which defend the existence of poverty as a "deserved" consequence of lack of values, poor choices, or insufficient effort, and
- poverty is often viewed as an important incentive to greater effort.

Despite the various impediments, a thorough cost-benefit analysis of all the relevant elements would show that a substantial reduction of poverty is essential to well-functioning societies. Most countries could find the needed resources on an ongoing basis through establishing progressive taxation schemes, closing loopholes and capturing all taxes owed, ending illicit flows and off-shore tax havens, imposing financial transaction taxes, and bringing many universally needed services such as health care, education, pensions, and banking into the public sector. The poorest countries will need increased aid from other countries – something which has been agreed upon several times since 1970, but unevenly implemented (UNCTAD 2014, p 35).

The real question, then, is not whether it would be worth doing (it is) or whether we have the resources to make it possible (we do), but whether we have the political will to do it.

Implementing social protections for the poor and vulnerable

The use of social protections and floors to overcome poverty has been recommended by poverty researchers and others (c.f. Ortiz & Cummins 2011; Cornia & Court 2001; UNICEF & UN Women 2013; Jones 2009; UNRISD 2010). As a recent OECD report concluded, “Redistribution policies via taxes and transfers are a key tool to ensure the benefits of growth are more broadly distributed and the results suggest they need not be expected to undermine growth.” (Cingano 2014, p 6).

This target is qualitatively different from the first two, because it specifies a particular methodology for reducing poverty. Because of this, it does make sense to assess costs and benefits of the various potential programs that could be implemented. A social protection system may have a public provisions component (provision of publicly subsidized health care, education, housing, child- and elder-care, public jobs creation, etc.) and a cash transfer component (food coupons, home heating subsidies, parenting supports, basic minimum income, reverse income tax, pension systems, etc.). The costs and benefits of these two approaches could be contrasted, and each of the particular programs could be assessed. However, in all likelihood poverty reduction will require a mix of these mechanisms as appropriate for each country.

In addition, the costs and benefits of redistributive spending needs to be contrasted with costs and benefits of the commonly accepted alternatives, including promoting economic growth, restructuring the economy, providing job training, making credit more widely available, adopting minimum wage policies, ending discriminatory practices against socially excluded groups, and so forth.

Empirical studies on the relationship of economic growth to poverty reduction have found that there is not necessarily a good correspondence. A Brookings Institution study found that in many of the fastest growing economies on the African subcontinent, poverty was not reduced as anticipated (Africa Progress Panel 2013). Increased inequality explains the apparent discrepancy. The wealthiest 10% captured a large part of the increase generated by growth, while the poorest 40% saw their share of income decline. In other words, economic growth is driving an increasingly unequal pattern of wealth distribution, thus weakening the link between growth and poverty reduction (Africa Progress Panel 2013).

Several studies have found that economic growth often fails to result in poverty reduction because resources are directed toward urban or capital-intensive sectors rather than rural development or creating jobs (UNCTAD 2014, p 24; Africa Progress Panel 2013; Cornia & Court 2001). UNCTAD’s 2013 analysis of economic change in least developed countries showed that those LDCs with faster GDP growth had less employment creation; UNCTAD called for new priorities and policies based on inclusive growth and sustainable development (UNCTAD 2013).

Several studies indicate that high inequality itself may reduce growth rates and thus further block poverty reduction (Cornia and Court 2001; Deininger and Squire 1998; Aghion 1999; Keefer and Knack 2002). A recent OECD econometric analysis found the same thing – that “income inequality has a negative and statistically significant impact on subsequent growth” – and called for increased emphasis on reduction of inequalities (Cingano 2014).

Metastudies of empirical data have shown that growth does not necessarily result in poverty reduction: it is redistribution, or redistribution in conjunction with growth, that works (e.g. Ravallion 2005; Naschold 2005). Using real data for a large number of countries, DaGdeviren simulated hypothetical poverty reduction through distribution-neutral economic growth versus an equal redistribution of each period's growth increment, concluding that redistribution is far more effective for poverty reduction (DaGdeviren *et al.* 2005).

My own research also demonstrates that economic growth without redistribution is an inefficient approach to poverty alleviation. Simulations based on real-world data for a poor country, a rich country, and world-wide, showed that redistribution of from 1% to 3% achieved substantial poverty elimination, while the level of distribution-neutral growth required for that same level of poverty reduction ranged from 45% to 110% (Rogers and Balazs 2015). In other words, without explicit pro-poor policies including redistribution, the majority of income growth will go to the upper quintiles of the population, and the poor will mostly remain poor.

What about the China counter-example? Over the past three decades, China has had high levels of economic growth, falling poverty rates, and periods of growing inequality. On the face of it, this would contradict the redistribution hypothesis. However, the periods of falling inequality (1981–85 and 1995–98) had the highest growth in average household income, and provinces that saw a more rapid rise in rural inequality saw less progress against poverty (Ravallion 2005).

For the least developed countries, the challenge is greater. To raise everyone above the extreme poverty level of $1.25 per capita per day *through growth* would require a 5-fold increase in the combined size of these economies, an unlikely 8.3% growth per year between now and 2030 (UNCTAD 2014, p v). The UNCTAD analysis found that for least developed countries without structural transformation, "the impact of economic growth on human development was close to zero." (UNCTAD 2014, p vii).

Social protections can increase the benefits of growth. Because their savings are for true survival emergencies, poor people cannot invest in income-generating opportunities unless social protections give them assurances (UNCTAD 2014, p 47). Moreover, achieving essential productivity, growth, and structural transformation requires growth in demand – which in turn necessitates access to credit and social protections for the poor (UNCTAD 2014, p xii). Neither the Washington Consensus nor the East Asian export-oriented growth models will achieve this (UNCTAD 2014, p 55).

What about the problems that have been shown to occur with various social protection schemes, including disincentives for employment or other changes the program was intended to promote, misdirected benefits, inflationary tendencies that erode the real benefits received, and other issues raised by Gibson's review of the poverty goal? Each of these problems deserves serious analysis to understand its dimensions and to develop solutions, if needed. However, these are not reasons to dispense with social protections:

they are simply reasons to be very careful about how the programs are designed and implemented.

In short, although a thorough cost-benefit calculation is not available for any of the proposed redistributional or growth-oriented strategies, both empirical data and theoretical calculations strongly suggest that a redistributional or social protections approach (alone, or in conjunction with growth) is the most efficient means of achieving a rapid reduction in poverty. If eliminating poverty is our goal, and we are serious about accomplishing it, then social protections programs, including floors, will be the primary tools in our toolkit. For the least developed countries, increased external aid will be a necessary redistributional tool at the international level.

REFERENCES

Africa Progress Panel. 2013. Equity in Extractives: Stewarding Africa's natural resources for all. Geneva: Africa Progress Panel.

Aghion, P., Caroli, E. & García-Peñalosa, C. 1999. Inequality and Economic Growth: The Perspective of the New Growth Theories. Journal of Economic Literature 37, 1615-1660.

ASAP. 2014. *Fair Distribution Within Nations*. Alliance for Sustainability and Prosperity Policy Briefing. http://www.asap4all.com/

Cornia, G. A. & Court, J. 2001. Inequality, Growth and Poverty in the Era of Liberalization and Globalization. Helsinki: UNU-WIDER.

Cingano, F. 2014. Trends in Income Inequality and its Impact on Economic Growth, OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing. DOI: 10.1787/5jxrjncwxv6j-en

DaĞdeviren, H., Van Der Hoeven, R. and Weeks, J. 2005. In Shorrocks, A. and van der Hoeven, R. (eds). Growth, Inequality, and Poverty: Prospects for Pro-poor Economic Development. Oxford: Oxford University Press.

Deininger, K. & Squire, L. 1998. New ways of looking at old issues: inequality and growth. Journal of Development Economics 57, 259–287.

Gibson, J. 2014. Evaluation of Proposed Post-2015 Poverty Targets: A Report to the Copenhagen Consensus Centre. Copenhagen: Copenhagen Consensus Centre.

Fuentes-Nieva, R. and Galasso, N. 2014. Working For the Few: Political capture and economic inequality. Oxfam Briefing Paper 178. Oxford: Oxfam GB. http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-summ-en.pdf

Jones, H. 2009. Equity in development: Why it is important and how to achieve it. London: Overseas Development Institute.

Keefer, P. & Knack, S. 2002. Polarization, politics and property rights: Links between inequality and growth. Public Choice 111, 127–154.

Naschold, F. 2005. In Shorrocks, A. and van der Hoeven, R. (eds). Growth, Inequality, and Poverty: Prospects for Pro-poor Economic Development. Oxford: Oxford University Press.

Ortiz, I. & Cummins, M. 2011. Global Inequality: Beyond the Bottom Billion – A Rapid Review of Income Distribution in 141 Countries., New York: United Nations Children's Fund (UNICEF).

Oxfam. 2013. The Cost of Inequality: How wealth and income extremes hurt us all. Oxfam Media Briefing 18 January 2013. Oxford: Oxfam. http://policy-practice.oxfam.org.uk/publications/the-cost-of-inequality-how-wealth-and-income-extremes-hurt-us-all-266321

Ravallion, M. 2005. A poverty-inequality trade off? Journal of Economic Inequality 3, 169–181.

Rogers, D. and Balázs, B. 2015 (in press). The View from Deprivation: Poverty, Inequality, and the Distribution of Wealth. In: Pogge, T., Köhler, G., Cimadamore, A.D. (eds). Poverty and the Millennium Development Goals (MDGs): A critical assessment and a look forward. London: Zed Books.

Rogers, D. 2013. Socioeconomic Equity and Sustainability. In: Freedman, B. (Ed.) Global Environmental Change: SpringerReference. Springer-Verlag Berlin Heidelberg, 0. DOI: 10.1007/SpringerReference_305237 2012-09-10 22:53:38 UTC

UNCTAD. 2013. The Least Developed Countries Report, 2013: Growth with Employment for Inclusive and Sustainable Development. New York and Geneva, United Nations.

UNCTAD. 2014. Growth with structural transformation: A post-2015 development agenda. The Least Developed Countries Report 2014. New York and Geneva, United Nations.

UNICEF and UN Women. 2013. Addressing Inequalities: Synthesis Report of Global Public Consultation "Global Thematic Consultation on the Post-2015 Development Agenda." http://www.worldwewant2015.org/node/299198

UNRISD. 2010. Combating Poverty and Inequality: Structural Change, Social Policy and Politics. Geneva: United Nations Research Institute for Social Development.

Wilkinson, R and Pickett, K. 2010. The Spirit Level: Why Equality is Better for Everyone. London: Penguin.

This paper was written for the Post-2015 Consensus Project by Deborah S. Rogers, PhD, President, Initiative for Equality at Institute for Research in the Social Sciences, Stanford. The project brings together 60 teams of economists with NGOs, international agencies and businesses to identify the targets with the greatest benefit-to-cost ratio for the UN's post-2015 development goals.

For more information visit post2015consensus.com

COPENHAGEN CONSENSUS CENTER

Copenhagen Consensus Center is a think tank that investigates and publishes the best policies and investment opportunities based on how much social good (measured in dollars, but also incorporating e.g. welfare, health and environmental protection) for every dollar spent. The Copenhagen Consensus was conceived to address a fundamental, but overlooked topic in international development: In a world with limited budgets and attention spans, we need to find effective ways to do the most good for the most people. The Copenhagen Consensus works with 100+ of the world's top economists including 7 Nobel Laureates to prioritize solutions to the world's biggest problems, on the basis of data and cost-benefit analysis.