

Let the poor world grow

Graeme Maxton and Jorgen Randers

The discussion of globalisation opens with an analysis of development models for poor countries and rich countries.

Let the poor world grow (Che il mondo povero possa crescere) *examines the question of how the poor world (poor countries as well as populations) can be allowed to grow. It is clear that growth strategies for this world can and must be different from those which work for the rich world. The authors tackle the question in this chapter from the book Reinventing Prosperity. Managing Economic Growth to Reduce Unemployment, Inequality, and Climate Change. Written by Graeme Maxton and Jorgen Randers, the book constitutes a Report from the Club of Rome and was published in 2016 by the David Suzuki Institute and Greystone Books in Vancouver/Berkeley.*

Our sincere thanks go to Graeme Maxton and Jorgen Randers for granting “Futuribili” permission to reproduce chapter 11, “Let the Poor World Grow”, with its analysis of the growth strategies of the three worlds: rich countries, developing countries and poor countries, and its emphasis on the strategies best suited to the poor world.

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Traditionally, the economic systems adopted around the world have varied by political philosophy - communism vs. capitalism, for example - rather than by level of human development. The poor world has mostly followed the economic model of the richer world.

In what we are proposing, this will have to change, which makes sense because the development requirements of the poor world are completely different.

Populations in developing countries are rising, and will continue to rise for many years to come, meaning that consumption will have to increase and jobs will need to be created through economic growth. The vast majority of people in the poor world live on very low incomes, with hundreds of millions struggling to feed and clothe themselves. Industries are less developed, with many economies still based on resource extraction and agriculture. The impact of climate change will also become more obvious in much of the poor world sooner than in the rich world.

Although the rich world fulfills Keynes's idea of sufficient income for everyone to be able to work less and live well, this is not the case in the poor world. In the OECD, the challenge is one of redistribution to share the available work and income more evenly so that everyone has enough. The high level of average income makes it politically feasible to start thinking about slowing the growth in output and consumption, to gradually reduce the ecological footprint, not only of the nation as a whole but of the average inhabitant. Rich-world societies can even increase well-being in the process: increased leisure time in return for lower consumption of resources.

In the poor world, it is basic economic development that is needed, and some of it is very basic indeed. To raise living standards in the poor world means increasing the output per person and distributing the benefits among the population. It means gradually increasing agricultural productivity so that more people can work in manufacturing, and then later in services. In short, it means good old-fashioned economic growth, ideally using the resource-efficient, clean technologies that have been developed in the rich world in recent decades.

Of course, a great deal can be achieved by redistribution in the poor world, too, because the gap between rich and poor is often even wider there than in the OECD. But the absolute numbers of poor people, as well as the practical barriers to achieving this sort of transfer, mean that any useful redistribution

is likely to be postponed. Corruption is usually a bigger problem in the low-income world¹ so the establishment of a properly functioning legal system would be much more beneficial to the well-being of the average citizen in the short term.

In the last thirty years, one developing country has stood out for what it has achieved economically. China's government has successfully shifted more people out of poverty in a shorter time than any other government in human history. It has done this in ways that are unorthodox and often difficult for other countries to replicate. In broad terms, China has followed in the footsteps of Japan and South Korea, both of which successfully moved from poor agriculture-based societies to post-industrial economies in less than fifty years. To achieve this, both required a solid dose of central planning. Both were also developed by a small elite, who followed a clear plan. They did not develop by focusing on what was most profitable in the short term, or on what the majority preferred.

China's development has required a single-mindedness from the government and the people, as well as the will to exploit the opportunity that emerged when the rich world pursued its market ideology to the point that most of the simple manufacturing was moved from the West to China. The Chinese were smart enough, and sufficiently well organized, to keep a large share of the profits from this transfer, thereby building huge international reserves. While the rich world went on a borrow-and-spend spree, China supplied the goods, though the environmental cost has been horrendous.

However, this book is not about the policy changes needed to help the poor world make the transition to a healthier economic system. This book is about the rich world. What we can say, though, is that the developing world will need forward-looking policies, too, to allow economies to grow, raise standards of living, and protect infant industries. To meet the world's environmental goals, notably on climate change, poor countries will also need a rapid transition to an energy system not based on fossil fuels.

Here, the rich world can help-by offering leapfrogging technologies that would allow poor countries to build a renewable low-emission energy network

¹ See Transparency International's Corruption Index: www.transparency.org/research/cpi/overview.

using the latest engineering. In the long run, this is in everyone's interests. To make it happen quickly, the rich world would need to pay the extra costs involved to provide the low-carbon energy systems (solar panels, windmills, hydroelectric dams, and biomass-based energy plants). This would give rich-world firms a market for their high-tech energy products and the poor world an energy system that does not worsen the climate. In our view, this should be funded by the rich world, because it is in humanity's interests, and because most of the greenhouse gases that exist in the atmosphere today are the result of the rich world's past economic development and current consumption. Such magnanimity is unlikely, however, as the rich world's taxpayers are not likely to be supportive. This is true, unfortunately, even if development assistance is used to pay for manufacturing these low-carbon energy systems in the rich world, with the work done by the rich world's workers and by businesses controlled by the rich world's shareholders.

The most fundamental problem facing the poor world is the fact that the planet is too small, or more accurately, that humanity has allowed itself to become too big for the planetary resource base. At current resource intensity (tons used per product) and current emissions intensity (tons emitted per product), it will be extremely difficult for more than a third of the world's population to achieve the same living standards as exist in the United States or Europe today, and it would require decades of technological advances for the entire human population to reach the same level. Even for China—with 1.3 billion people—to attain the same standard of living as the OECD today—with a total of 1 billion people—would require a second planet's worth of natural resources and pollution absorption capacity, with current levels of technology.²

The good news is that it is actually possible to advance technology sufficiently to allow everyone to live well within the boundaries of the planet. The challenge is to do it fast enough so that it more than counterbalances the combined growth in population and the increase in footprint per person.

When it comes to energy, for example, there is already enough installed capacity around the world to ensure that 7 billion people can live pleasant

² Global Footprint Network. See www.footprintnetwork.org/en/index.php/GFN/page/world_footprint.

enough lives.³ Existing energy capacity mainly burns fossil fuel, so the question is how fast can it transition to renewable resources without society having to scrap the installed capacity before the end of its lifetime? Rough estimates show that this could be done over fifty years and at comparatively little cost—just 1% of GDP a year. The real problem is that low-carbon electricity generation is generally more expensive than today's fossil-based electricity, so the transition is almost impossible in unregulated free-market economies.

But it *is* possible. Earth receives ten thousand times as much energy from the sun every day as would be required by 7 billion people using as much power as present-day Europeans. So it is possible to have a world without greenhouse gas emissions, a world that runs on electricity for transport, air conditioning/heating, manufacturing, and everything else. Even when it is dark, there can be sufficient energy, because surplus electricity accumulated during the day can be converted into hydrogen and burned as clean fuel during the night. The solution is there. The trouble is that society is not currently willing to pay the small additional cost.

In our view, the poor world should seek to improve the lot of its population by using whatever means necessary. It should pursue conventional economic growth, learning from those nations that are already ahead in the game of increasing the GDP per person. Developing countries should also strive to use the most energy- and climate-efficient technologies possible, and have these subsidized by the rich world if they can. We also think they should follow the example of China and seek to limit their populations, not with a one-child policy necessarily but through improved education and health, more easily available contraception—and ideally, by paying a bonus to those families who have had fewer than two children.

To us, the rich world has a moral obligation to help and to pay for as much of this development as possible—particularly when it comes to the provision of low-carbon electricity—because the really huge step up for people in the developing world comes with access to power. Access to electric power increases levels of well-being immediately and is something the rich world could provide.

The poor world will need to manage some extremely complicated people and money flows in the process of its development, of course. It will need to

³ Currently installed energy capacity is around 3 KW for each of the world's 7 billion people.

facilitate a huge exodus of people and investment from agriculture to manufacturing and then services, as well as an enormous flow from villages to megacities. It will also need to organize its workforce to supply the services (education, health, and elderly care) that constitute the core of modern well-being. It should seek to do what Japan, South Korea, Singapore, and China have already achieved: to quadruple the GDP per person over thirty years. If the poor nations could do this, they would become able to provide each citizen with a reasonable standard of living.

This is a huge challenge, but it is doable - as illustrated by those nations that already have moved briskly from agricultural to industrial economies. However, it will be extremely difficult for other developing nations to make the transition with open trade and an unregulated market-based economic system.

In our view, the poor world would make its development much easier if it chose to distance itself from extreme free-market thinking. Developing countries should try to be smarter because, just as the extreme free-market model has not created enough work in the rich world and has widened inequality, it has not done what it promised in the poor world in the last thirty years either. Here, too, it has increased inequality.

Developing country governments need to understand that another of the central pillars of the gospel of extreme free-market thinking is flawed. This is the belief that conventional free-market economics has lifted a billion people out of poverty over the last thirty years.

It is simply not true.⁴ The heavy lifting was actually done by China.

The bare facts are not questioned. According to the U.N., the number of people living on an income of \$ 1.25 a day fell by just over 1 billion between 1990 and 2015, from 1.9 billion people to 836 million.⁵ Both the World Bank and IMF, strong supporters of the free-market model, have published similar statistics.

These claims have several problems, however. First, they give the misleading impression, backed up by triumphant reports and newspaper headlines,

4 See www.theguardian.com/global-development-professionals-network/2015/mar/30/it-take-100-years-for-the-worlds-poorest-people-to-earn-125-a-day.

5 United Nations Millennium Development Goals Report, July 2015. Available at [www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20\(July%2015\).pdf](http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%2015).pdf).

that free-market economics is the route out of poverty and misery. They also suggest that most of these 1 billion people have been moved out of poverty completely, that there is no longer any need to worry about them, because the system has already set them on a new and better path.

In truth, nearly 90 of the developing world's population still live on less than \$ 10 a day. More than half live on less than \$ 2.50 a day. The gap between rich and poor has also grown, and the gap between the rich world and the poor world is much bigger than it was three decades ago. In fact, it is wider today than it was in 1820.⁶ The consolidated figures published by the U.N. also mask what is happening nationally and regionally. In some parts of the world, notably most of sub-Saharan Africa, the share of the population living on \$ 1.25 a day has barely changed at all, despite thirty years of global economic growth. Just under 60% of the world's extremely poor live in a handful of very populous countries - India, Bangladesh, Nigeria, Congo - where little has changed in thirty years.

Most critically, most of the progress in the last thirty years was in just one country: China. By taking China out of the statistics and raising the poverty threshold to \$ 2.50 a day, the percentage of people in the world who can be classified as living in poverty did not change at all between 1980 and 2005.⁷ Half of the world lived in poverty in 1980 and half of the world lives in poverty today. There has been no reduction at all. Raising the barrier to \$ 2.50 a day also makes sense. The level that defines poverty was set at \$ 1 a day in 1980 by the World Bank. It was raised to \$ 1.25 in 2008 to "take account of inflation." Yet the change did not properly take account of inflation, as \$ 1 in 1980 was actually equal to \$ 2.61 in 2008. Setting the barrier at \$ 1.25 today means it is much lower than it was in 1980, which means many fewer people are included. This greatly explains why the number of people living in poverty appears to have declined. Using the 2015 equivalent of a 1980 dollar - \$ 2.90 - as the poverty threshold reveals that the percentage of people living in poverty in the world has actually *increased* slightly in the last thirty five years.

6 OECD, *How Was Life? Global Well-Being since 1820*, October 2014. Available at www.oecd.org/statistics/how-was-life-9789264214262-en.htm.

7 See www.globalissues.org/article/4/poverty-around-the-world. Chart data taken from World Bank Development Indicators 2008: data.worldbank.org/sites/default/file/wdio8.pdf.

There is also concern about how poverty statistics are collected, because the poorest people in any society are most often those who are homeless and unregistered. They are the people whom the D.N.'s researchers will have the greatest difficulty reaching. This suggests that even the official figures are likely to be understated.

Indeed, there is huge uncertainty in these data, as in all social statistics, despite the fact that they are often provided to four or more significant digits. It is actually impossible to know the population of many places, let alone their incomes, to more than two significant digits, because more than one hundred developing countries do not have a functioning system to measure birth and death rates, and twenty six have not collected data on infant mortality since 2009.⁸ In reality, only 20% of births in the world occur in countries with proper civil registration systems. Even in the United States, the population is counted only once every ten years, and even there to an error level of around 0.1%, which is equal to plus or minus 300,000 people. Finally, the GDP numbers issued by the U.N., World Bank, and others are often adjusted for PPP. This is to make allowances for relative currency rates and different costs of living, to try to make the numbers easier to compare, because what you can buy with a dollar in New York is different from what you can buy with a dollar in Mogadishu. But using PPP also distorts the numbers, making incomes in the poor world appear better and those in the rich world worse. India's nominal average income doubles when it is translated into PPP terms, for example, whereas that of Denmark is almost halved.

Of course, using PPP is certainly better than using local currency units, or local currency translated into dollars at current exchange rates, because the costs of living *do* vary enormously. It is important to remember the limitations of this approach, however.

Despite all these problems with the official statistics and with how poverty is measured, society's lack of specific knowledge does not diminish the central goal: to improve the average well-being of all inhabitants on the planet. The lack of precise data only makes the task more complex.

Another way to help the poor world move in a better direction faster would be to transfer some of the wealth of the rich world. As with our other sug-

⁸ See www.wsws.org/en/articles/2015/04/17/pove-a17.html.

gestions, this can be achieved in ways that need not be very disruptive if it is done gradually.

As we have already suggested, one of the simplest ways to achieve this would be for the rich world to build low-carbon energy systems in the poor world, and then to give away the electricity. Slightly less Utopian would be for the rich world to build the utilities and sell the electricity, but on deferred payment conditions. The rich world could ask to be paid back once the recipient countries had reached a certain level of economic development, in terms of GDP per person, for example. If a recipient country managed its development well, it could probably start paying its energy bills in forty years – which would conveniently help to pay for rising pension costs in much of the rich world. But since this idea involves a lower return on investment than could be achieved by spending the money elsewhere, the chances are low that rich-world populations would be so magnanimous. So we are stuck with the current situation where the only thing the rich world is willing to do is *lend* money to poor countries – at near-commercial rates - to build the utilities needed to lift them out of poverty and thereby also shackle them with debt. As with so much else we have discussed, the long-term consequence of this approach is that income and wealth again flow from the poor to the rich.

Income redistribution from the rich world to the poor world could be achieved in other ways, of course, if the rich world were willing to go along with it. It is perfectly possible for the rich world to continue to live well, and more efficiently than now, and offer the poor world a more acceptable average standard of living. Such a transfer would re-balance wealth, reduce emissions, cut resource use, and, because even slightly richer people tend to have fewer children, slow the rate of population growth. We acknowledge, however, that this is unlikely to happen to any significant degree at all. Most people in the rich world are already too tied up with their own problems to think much about those who are even worse off in distant lands.