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Shared Prosperity and the Mitigation of Poverty

The World Bank Group has set two global goals for 2030. What is their rationale—and what are their implications for policy making?

The World Bank Group recently adopted the twin goals of ending extreme poverty in the world by 2030 and promoting shared prosperity in every society. The first goal is aimed at reducing the number of people in extreme poverty—defined as those living on less than $1.25 a day—to less than 3 percent of the world's population. The second focuses on raising the prosperity of the poorest 40 percent of the population of every nation. World Bank Chief Economist Kaushik Basu, in a recent paper, examines the rationale behind these goals and their implications for actual policy making.

Basu analyzes past poverty trends and revisits the long-standing debate over which is more effective in improving people's livelihoods—economic growth that serves as a rising tide to lift all boats, or direct welfare interventions that are targeted to the poor. Within this debate, experts argue about the insights provided by macroeconomic analysis and the use of modeling to understand broad development trends—as compared with those produced by randomized control trials to gauge the efficacy of everything from conditional cash transfer schemes to deworming efforts.

Basu's paper also has a subtext. Over the years economics has vastly improved in the use of statistics and facts. Basu argues that where the economic policy debate has fallen short is in the employment of reasoning and analytics.

Over the past three decades the global poverty rate has declined sharply, from just below 50 percent in 1980 to 17.7 percent in 2010. If all countries continue to grow at the same rates as they did over the past 20 years, with no change in income distribution, the global poverty rate will fall to 7.7 percent by 2030. If they grow faster, at the average rates recorded in the 2000s, the poverty rate will fall to 5.5 percent. These numbers suggest that growth alone is unlikely to get us to the 3 percent target.

Some fear that a single global target of 3 percent could lead to attention being directed to the world's most populous countries, where large numbers of poor people live. Basu explains that while the Bank is maintaining one target for the world, it is at the same time deliberately trying to ensure that no country is left behind. This matters tremendously, since it is in small and fragile states that the risk of leaving chronically poor people in dire conditions is a real and growing concern. Indeed, if all countries grow at the rates they achieved during the first decade of this century and income distribution stays steady, 17 countries will have poverty rates of more than 30 percent in 2030. Even with higher growth rates, such countries as Burundi, the Democratic Republic of Congo, and Haiti will still have poverty rates exceeding 30 percent.

Some are concerned about the shared prosperity goal, arguing that

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