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Poverty, Inequality and Growth

Abstract Cilliers first explores the progress that has been made globally in poverty reduction in a historical context and then the relationship between inequality and growth. He concludes that Africa will miss goal 1 of the Sustainable Development Goals on the elimination of extreme poverty by 2030 by a substantial margin. The chapter uses three income measures of extreme poverty for low, lower-middle and upper-middle countries to frame the current situation in Africa and then discusses and forecasts the impact of social grants on poverty alleviation. A final section presents the results of a scenario, Social Grants for Africa, and compares the results with the poverty forecast in the Current Path.

Keywords Poverty · Inequality · Economic growth · Inclusivity · Multidimensional poverty · Redistributive policies · Social grants · Conditional and unconditional grants · Welfare state · ID system

Learning objectives

- Income inequality is the outcome of complex and multidimensional determinants
- Despite recent improvements, the slow rates of growth in Africa among other issues are barriers to eliminating poverty
- Social protection mechanisms can play an important role in the short to medium term to alleviate poverty and inequality.

Over the last two centuries the world witnessed a transition to levels of peace and prosperity that are almost unimaginable by historical standards. We often don't realise exactly how recent this progress is.

In 1651 English philosopher Thomas Hobbes wrote in his book, *Leviathan*, that in the absence of a strong central authority the inevitable inclination of nations is towards civil war 'where every man is enemy to every man ... and the life of man, solitary, poor, nasty, brutish, and short'.¹ Hobbes was describing the situation for most of humanity for, until the industrial revolution that began in Britain in the eighteenth century, poverty was widespread and pervasive. Only a very small elite enjoyed decent living conditions.

The improvement in well-being that followed the industrial revolution came off a very low base. Everyone was basically dirt poor, but the situation improved rapidly thereafter. The result was also inevitably to increase inequality between and within countries, a trend that decelerated somewhat between the two World Wars and only stabilised after 1950 when growth in Europe and the USA slowed, coinciding with more rapid economic growth in Japan, East Asia and eventually China. Even at that point, 1950, three-quarters of the world's population still lived in what we today would term extreme poverty.²

During the first half of the previous century *rates* of poverty came down even as global populations continued to increase. Then, from around 1970, the decrease in poverty rates became so rapid that we saw the *absolute number* of people living in extreme poverty also starting to fall in spite of the huge increase in global population. That progress was largely delivered by capitalism and the expansion of trade—developments that we often consider synonymous with globalisation and a neoliberal phase of economic development, discussed in Chapter 11 on trade.

Until the early 1990s, numbers of extremely poor people hovered at above two billion people but, from around 1994, it declined precipitously, much of it due to rapid progress in China. In the eleven years from 2006 to 2017 the number of people living in extreme poverty actually *halved* to less than 800 million people despite the fact that the world's population *increased* by almost one billion people during this period.³

¹Hobbes, T., 1909. Being the First Part of *Leviathan*. In: C. W. Eliot, ed. *Of Man*. New York: Bartleby.

²Bourguignon, F., and Christian Morrisson, C., 2002. Inequality Among World Citizens: 1820–1992. *The American Economic Review*, 92(4, September), pp. 727–728. <http://links.jstor.org/sici?sici=0002-8282%28200209%2992%3A4%3C727%3AIAWC1%3E2.0.CO%3B2-S>.

³Roser, M., and Ortiz-Ospina, E., 2018. *Literacy*. [Online] Available at: <https://ourworldindata.org/literacy>.

The improvements have been so fast that in 2005 the international community was emboldened to adopt a target to halve extreme poverty by 2015 as part of the Millennium Development Goals. When that was met, an even more ambitious goal, to *end* extreme poverty by 2030, was adopted as part of the Sustainable Development Goals (SDGs). It is captured in Goal 1, which refers to ‘ending poverty in all its forms everywhere’. Technically this means that less than three percent of the population of every country in the world should be living in extreme poverty using US\$1.90 per person average income.

Because of Africa’s rapid population growth, modest rates of economic growth and relatively high levels of inequality, the absolute number of extremely poor people in Africa has steadily increased since 1960 and is likely to continue to do so until around 2032 before slowly starting to decline. However, since the early nineties, the *percentage* of people living in extreme poverty in Africa has started to decline. The reason is that even though economic growth in the continent is now slower than before the 2007/2008 financial crisis, was, until COVID-19, robust enough to reduce the portion of Africans living in extreme poverty but not enough to reduce the absolute number along the Current Path forecast for at least the next decade.⁴

Sadly, Africa will miss the SDG goal of eliminating extreme poverty by 2030 by a very large margin. In this, the widening gap between Africa and the rest of the world again becomes clear. Things are improving in Africa but much slower than in other regions and, in the wake of the COVID-19 pandemic, progress is bound to be even more modest than before.

Globalisation and the Sense of Relative Deprivation

For much of our recent history, certainly from the end of the nineteenth century onward, globalisation drove economic growth and played a positive role in the remarkable improvements in human prosperity that virtually exploded in the twentieth century in spite of two world wars. Today, though, the impact is less visible, particularly in high-income countries like the USA, Japan and Germany. Because Africa suffered under the yoke of colonialism and its economic legacies, it has generally not been part of the accompanying expansion in trade and value as examined in Chapter 11.

⁴This analysis uses US\$1.90 as extreme poverty line.

The last four decades have witnessed dramatic reductions in income inequality between countries. In 1975, world income distribution was akin to the two-humped shape of a camel's back with one hump (the developing world, particularly Asia and the Pacific as well as Africa) below the international poverty line. The second hump (the developed world) was at considerably higher average incomes. In the subsequent four decades the poorer countries, particularly in Southeast Asia, have caught up as the incomes of the world's most poor increased rapidly, although not sub-Saharan Africa. Today there is only one hump as global prosperity has generally improved and incomes have increased.⁵ But not in sub-Saharan Africa, where, in comparison with the rest of the world, the camel still has two humps.

Globally the pre-2007/2008 period of globalisation appears to have seen a convergence among a group of rich states, the stagnation of middle-income countries and a convergence among poor countries. It is as if hyper-globalisation reached a tipping point with the 2007/2008 global financial crisis, which temporarily turbocharged income inequality within and between countries.⁶ As I mentioned previously, it is still too early to speculate responsibly on the impact of the COVID-19 virus on inequality and poverty, although the short- and medium-term trends are inevitably going to be negative. Exactly how negative remains to be seen, however.

While the numbers and percentages may tell one story as regards the situation when comparing incomes between countries, our interconnected world and access to information seem to have intensified a sense of relative deprivation among large swathes of the global populace, from India and China to the American Midwest and Afghanistan. It is particularly evident in Africa.

Initially, the 2007/2008 financial crisis led to anti-establishment protests such as the 'Occupy Wall Street' movement although with important regional variations. Financial benefits seem to be flowing to small urban elites, financial institutions and a handful of large corporations while little changed for the middle class. In almost all countries with data on income distribution, income is increasingly concentrated among top earners—the poor (and often

⁵Roser, M., 2016. *Global Economic Inequality*. [Online] Available at: <https://ourworldindata.org/global-economic-inequality>.

⁶Ruchir Sharma, investment strategist and author of *The Rise and Fall of Nations: Forces of Change in a Post-Crisis World* refers to before and after the 2007/2008 crisis. In the region with the highest average income, Europe, the national income share of the top 10% is only at 37%. It is highest in the Middle East at 61%. The average for sub-Saharan Africa is 54%, marginally below the average for Brazil and India at 55% each Sharma, R., 2016. *The Rise and Fall of Nations—Ten Rules of Change in the Post-crisis World*. New York: Penguin Random House, p. 5.

the middle class) are not doing very well while the rich are clearly getting richer.⁷

This sense of absolute and relative deprivation, that actual improvements in living standards are vastly out of kilter with expectations, is clearly on the rise. In fact, although people in high-income countries have never enjoyed a better living standard, they seem to feel particularly insecure, scared that they will not be able to maintain their standard of living and that migrants from poor countries will somehow overwhelm them. The result is a rise in developed world identity politics in the midst of the most peaceful and prosperous era known to humankind. Ironically, these improvements have largely been created by the exact political and market liberalisation ideals promoted by the west that are now blamed for driving the increase in inequality.⁸ All reflect a view, for different reasons, that the current political system is not managing to hold the fort against special interests.

The recent debate was arguably started by a 2013 door stopper of a book by French economic historian Thomas Piketty with the title *Capital in the Twenty-First Century*. Other books, both more serious and popular, include the 2018 *The Future of Capitalism: Facing the New Anxieties* by Paul Collier and the *Edge of Chaos: Why Democracy is Failing to Deliver Economic Growth and How to Fix It* by Dambisa Moyo. All seek either to reform capitalism or democracy or both, even as dedicated pro-business magazines such as *The Economist* flail around in their efforts to question the data and associated research findings⁹ while a steady drumbeat of reports from the UN and advocacy organisations such as Oxfam and others underline the extent to which increases in wealth today largely accrue to the rich.¹⁰

⁷See for example, UNDESA, Income Inequality Trends: The Choice of Indicators Matter, Social Development Brief #8, December 2019. [Online] Available at: https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2019/12/SDB_8_Income_inequality_trends_2.pdf. Accessed 5 January 2020.

⁸Kozul-Wright, R., 2017. *The Trade and Development Report 2017. Beyond Austerity: Towards a Global New Deal*. New York and Geneva: United Nations Conference on Trade and Development.

⁹*The Economist*, Inequality: Measuring the 1%, 30 November 2019.

¹⁰See for example: UNDESA. 2019. Income Inequality Trends: The Choice of Indicators Matter, Social Development Brief #8, December 2019. [Online] Available at: https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2019/12/SDB_8_Income_inequality_trends_2.pdf. Accessed 5 January 2020, and Oxfam. 2018. The Commitment to Reducing Inequality Index 2018. October 2018 [Online] Available at: <https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620553/rr-commitment-reducing-inequality-index-2018-091018-en.pdf>.

The Interplay Between Inequality and Growth

Economic growth and income distribution are the two key variables when forecasting rates of poverty at national level. In general, higher rates of economic growth are strongly associated with higher rates of poverty reduction but high levels of inequality limit the extent to which that can occur. A growing economy must, in particular, increase the number of formal sector jobs and the amount of money in circulation to provide more revenues to the government to invest in infrastructure, health and education (and hence improve the quality of its human capital), as well as for use in more direct measure of poverty alleviation such as social grant programmes.

The global achievements towards halving poverty in 2015 was largely achieved on the back of the remarkable progress in China since 1978 that transformed a rural, centrally planned economy, into the most dynamic and largest in the world, now generally referred to as a socialist market economy that has come to challenge Western, neoliberal, orthodoxy. Then classified as a low-income country, the vast majority of its population lived in extreme poverty. By 2018, the number of Chinese living below US\$1.90 per day was less than 2 million representing less than 1% of its 1.4 billion people.¹¹ In the intervening years, China has experienced almost unprecedented growth rates for such a large country. The extraordinary ability of the Communist Party to accelerate industrialisation and urbanisation, and hence shift surplus agricultural labour from the countryside into more productive urban employment in low-end manufacturing, to affect more equitable distribution of cultivated agricultural land and to institute universal compulsory education up to grade 9, roll out basic health care and minimum living allowance schemes that contributed to the remarkable improvements in income growth.¹² Poverty reduction in India has also accelerated in recent years but at significantly lower rates than it did in China in spite of the fact that China measures higher on the Gini index than India, pointing to the importance of additional factors to translate growth into poverty reduction.¹³

¹¹Ravallion, M., and Chen, S., 2007. China's (Uneven) Progress Against Poverty. *Journal of Development Economics*, 82(1), pp. 1–32. Also World Bank, The World Bank in China, 2019. [Online] Available at: <https://www.worldbank.org/en/country/china/overview>.

¹²Wu, G., 2016. Ending Poverty in China: What Explains Great Poverty Reduction and a Simultaneous Increase in Inequality in Rural Areas? World Bank Blogs, 19 October 2016. [Online] Available at: <http://blogs.worldbank.org/eastasiapacific/ending-poverty-in-china-what-explains-great-poverty-reduction-and-a-simultaneous-increase-in-inequality-in-rural-areas>. Accessed on 4 January 2020.

¹³Express News Service, 2018. *UNDP Report Lauds India's Strides in Reducing Poverty in Past Decade*. [Online] Available at: <https://indianexpress.com/article/india/undp-report-lauds-indias-strides-in-reducing-poverty-in-past-decade/>. Still, 650 million people (49%) on the Indian subcontinent

Gini is the most widely used measure to express income distribution. Its index ranges from zero, corresponding to complete equality, i.e. everyone earns the same income, and one that represents complete inequality where all the income accrues to only one person in society. Being a summary measure of income distribution, Gini does not identify whether a change in inequality is triggered by shifts at the bottom, middle or top of the income distribution. When comparing regions according to the Gini Index, Southern Africa, where I live, is the most unequal region globally, even worse than Latin America and the Caribbean that is often mentioned as the most unequal region globally. In Africa, Northern Africa is significantly more equal than any other subregion on the continent. Central, West and the Horn/Eastern Africa are somewhere between Southern and North Africa.¹⁴ There are additional problems with Gini which, as a summary measure of inequality, is based on survey data that is often not well suited to capture very high or very low incomes. The challenge is particularly acute for many developing countries that do not have much information on income distribution such as that earned by the bottom ten or top one percent.

That inequality is complex and not well captured using Gini is well illustrated by understanding the relative lower levels of inequality in North Africa, since it begs the question why the Arab spring would occur in this region and not elsewhere? The reasons, which are explored in greater detail in Chapter 12, come down to the fact that this region has relatively high levels of education compared to the rest of Africa but very limited economic, social and political opportunity. Consequently, frustration boiled over.

These concerns and caveats aside, generally countries with low levels of inequality, such as Ethiopia, that grow rapidly, can translate that growth into extraordinary rapid reductions in poverty but much more is required than simply economic growth.¹⁵

For example, since the early 1960s Botswana has consistently grown its economy much more rapidly than Ghana and did so until very recently. The average growth rate for Botswana from 1961 to 1999 was 10.1% while for Ghana it was only 2.5%. But because Ghana is significantly more equal

continue to live in debilitating conditions (using the US\$3.20 poverty line for low-middle-income countries).

¹⁴The IFs forecast on poverty levels uses the average levels of income and a lognormal distribution as indicated by the Gini index. Since the internal calculation using those variables will, however, almost inevitably produce a rate of poverty at odds with those provided by national surveys, the system computes an adjustment in the first year for the subsequent forecast years.

¹⁵Edward, P., and Sumner, A., 2013. The Future of Global Poverty in a Multi-Speed World: New Estimates of Scale and Location, 2010–2030. *Center for Global Development*, Volume Working Paper 327.

than Botswana, poverty reduction in the two countries does not differ as much as one would expect.¹⁶ From 1970 to 1996 poverty in Botswana had come down by 25 percentage points and by 14 percentage points in Ghana (using the US\$1.90 poverty line).¹⁷ Clearly growth matters, but so does levels of inequality and considerations such as the effectiveness and quality of government. Whereas Botswana is generally an island of stability and good governance in its region, Ghana has suffered from coups and significant instability for much of its independent history.

The SDGs and Measuring Extreme Poverty

The various goals and targets of the Sustainable Development Goals (SDGs) are described as being ‘integrated and indivisible’. Many of them refer to the relationships between economic growth, inequality (using various different indices and measure) and decent employment, three of the key factors that determine poverty rates.

SDG Target 8.1, for example, aims for sustained per capita economic growth of ‘at least 7 percent gross domestic product growth per annum in the least developed countries’, 33 of which are in Africa. Target 8.5 is about ‘full and productive employment and decent work for all women and men’. Target 10.1 commits countries to ‘progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average’ and ‘to reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions by 2030’.

The SDG goals and targets have led to a global effort to develop the data and associated tools with which the international community can more accurately measure progress. But definitions of poverty differ from country to country, among academics and between agencies. Poverty is closely related to the imbalances in people’s opportunities in education, health, level of empowerment and access to technology. It is about much more than just a lack of sufficient income. Nonetheless, GDP per capita in purchasing power parity remains the most widely used comparative measure of average standards of living and is often used to make comparisons between countries. It does not

¹⁶By about 19 percentage points.

¹⁷In 1970 Botswana still had an average GDP per capita that was US\$1.246 below that of Ghana. Within four years average income levels in Botswana surpassed Ghana’s and, by 1999 GDP per capita in Botswana was four times higher (or US\$7.167) than in Ghana.

take the quality of life into consideration, since it's simply a measure of the value of goods and services produced divided by the total population.

In using GDP per capita (and Gini) one must therefore be fully cognisant of the associated restrictions and distortions, such as the fact that poverty in the eastern DRC is quite different from that experienced in Mali or South Africa, for example. Poverty in rural Uganda is also quite different from that in the capital city of Kampala. These imbalances often reflect unequal opportunities. Poverty under men and women also differ sharply, firstly from each other, as well as from the poverty experienced by children.

Since women tend to be disproportionately responsible for household chores and caregiving, poverty restricts the time that girls can commit to staying in school. It also determines whether families can afford school fees, purchase supplies or guarantee that their children can attend school when their help is needed at home, either to help generate income or to take care of household tasks.

Since income is quite a blunt instrument through which to view poverty, there have been numerous efforts to flesh out new approaches and definitions, such as the Multidimensional Poverty Index (MPI)¹⁸ developed by the Oxford Poverty and Human Development Initiative and subsequently adopted by the United Nations Development Programme.¹⁹ The most recent edition of the Human Development Report²⁰ is entirely devoted to exploring the different dimensions of inequality and poverty and carries the subtitle 'Inequalities in human development in the 21st century'.

When the negotiations on the SDGs were finalised, extreme poverty was defined as living below a daily income of US\$1.90 per person in 2011 prices. It is the most recent incarnation of an international poverty line, originally defined as a dollar a day and has often been criticised for its focus on income and that it does not reflect the lived experience of extreme poverty.

These caveats aside, Fig. 7.1 presents extreme poverty in Africa and the World Except Africa from 2015 with a forecast to 2040 using the US\$1.90 extreme poverty income level. Whereas, in 2018, 36% of Africans (or 458 million) lived in extreme poverty that portion would decline to 33% by 2030 and 24% (equivalent to 513 million) by 2040. Almost all of the extremely poor people in Africa, and indeed globally, will be in sub-Saharan Africa.

¹⁸The MPI measures multiple deprivations in the same households in education, health and living standards across ten indicators ranging from nutrition and child mortality to assets.

¹⁹In 2010 the UNDP also launched its Inequality Adjusted Human Development Index (IHDI) and Gender Inequality Index (GII).

²⁰United Nations Development Programme, 2019. *Human Development Report 2019 Beyond Income, Beyond Averages, Beyond Today: Inequalities in Human Development in the Twenty-first Century*. New York.

Fig. 7.1 Extreme poverty in Africa and the World except Africa: 2015 to 2040 using US\$1.90 (Source IFs 7.45 initializing from United Nations Population Division World Population Prospects medium variant life expectancy)

To compensate for the fact that extreme poverty in richer countries occurs at higher levels of income than in poor countries, the World Bank in October 2018 announced an important addition to the way in which it would measure poverty. While progress to the SDG headline goal of eliminating extreme poverty would still be measured using US\$1.90 as well as for the 31 countries that the Bank classifies as low income, It now introduced three additional poverty lines for lower-middle (47 countries globally) and upper-middle-income countries (60 countries globally) at US\$3.20 and US\$5.50, respectively. Extreme poverty in high-income countries will be measured using US\$22.70 (applicable to 80 countries).

The Bank also intends to moving away from the household to individuals as the primary unit of analysis (as was the practice before) since there is considerable evidence that there are poor women and children living in non-poor households. So, while the main breadwinner in a household may technically not be classified as extremely poor, others in the same household may be living on much lower levels of income.²¹

The Impact of the Additional Poverty Lines

The three additional poverty lines compensate for one crucial imbalance in that the amount of income that a person needs to escape the burden

²¹Sharma, D., 2018. *Why the World Bank Is Taking a Wide-Angle View of Poverty*. [Online] Available at: <https://www.brookings.edu/blog/future-development/2018/11/14/why-the-world-bank-is-taking-a-wide-angle-view-of-poverty/>.

of extreme poverty in low-income Mozambique is quite different from the income that a person in upper-middle-income neighbour South Africa would need.

Applied in Africa the impact of the differentiated poverty rates is to sharply *increase* the number of Africans deemed to live in extreme poverty and to sharply *reduce* the number of African countries likely to achieve the target of eliminating extreme poverty by 2030 should the observer use the relevant income threshold for each country income group rather than US\$1.90 for all countries instead of just for low-income countries.

Using the three poverty lines, each applied to the relevant income group, the Current Path forecast is that the extreme poverty rate in Africa will, by 2040, have declined from 50% in 2018 (634 million out of a total of 1.28 billion people) to 35% (or 735 million out of 2.1 billion people).

The associated forecast for low, lower-middle and upper-income countries is set out in Table 7.1.

Currently, roughly 50% of Africans would be classified as living in extreme poverty, that is after combining the averages for the three country income groups. This rate will decline to 38% by 2040. The number of extremely poor Africans will, however, have increased from 638 million to 796 million on the back of rapid population growth.

Only the island state of Seychelles (with less than a million people) is considered to be a high-income country and is disregarded in the numbers and rates used in this chapter.

Other regions and countries are similarly affected. Whereas China met the US\$1.90 goal of eliminating extreme poverty some years ago, using the US\$5.50 extreme poverty line for upper-middle-income countries, China had around 234 million extremely poor people in 2018. Even then, with an average GDP growth rate of 6% from 2020 to 2040, China will eliminate extreme poverty as measured using US\$5.50 by 2030, illustrating the

Table 7.1 Current Path of population and extreme poverty in Africa

Year	Low-income Africa		Low-middle Africa		Upper-middle Africa	
	Population	Of which below US\$1.90	Population	Of which below US\$3.20	Population	Of which below US\$5.50
2018	548m	268m	613m	311m	11m	56m
2030	765m	331m	813m	379m	133m	66m
2040	973m	307m	999m	375m	143m	55m

Source IFs 7.45 initializing from United Nations Population Division World Population Prospects medium variant life expectancy and World Development Indicators data

Table 7.2 African countries with 50% or more of their populations in extreme poverty using US\$1.90, US\$3.20 and US\$5.50

	2018	2040
Low-income countries with poverty above 50% using US\$1.90	Madagascar (76%); Burundi (74%); DRC (73%); CAR (68%), Malawi (68%), Guinea-Bissau (65%), South Sudan (62%), Mozambique (62%), Somalia (57%)	Burundi (79%); Liberia (74%); CAR (69%); Madagascar (67%); Malawi (61%); Sierra Leone (60%); Somalia (54%)
Low-middle-income countries with poverty above 50% using US\$3.20	Zambia (76%); Nigeria (76%); Lesotho (76%); Sao Tome & Principe (68%); Senegal (63%); Rep of Congo (63%); Swaziland (61%); Angola (61%); Kenya (52%)	Lesotho (73%); Swaziland (60%); Zambia (70%); Nigeria (62%); Rep of Congo (54%)
Upper-middle-income countries with poverty above 50% using US\$5.50	Namibia (63%), South Africa (53%), Algeria (51%)	None

Source IFs 7.45 initializing from United Nations Population Division World Population Prospects medium variant life expectancy and World Development Indicators data

remarkable impact that high growth and effective government can have on poverty levels.²²

The Current Situation in Africa

Table 7.2 presents a summary of those countries with more than 50% of their population below the extreme poverty line in 2018 and 2040 along the Current Path forecast.

African countries also vary widely with regard to the depth of extreme poverty, meaning that many extremely poor people live far below the US\$1.90, US\$3.20 and US\$5.50 income levels per person per day. They are chronically poor and it will take a long time for extremely poor people in these countries to improve their prospects and to reach even the extreme poverty income levels discussed here.

²²Ravallion, M., and Chen, S., 2007. China's (Uneven) Progress Against Poverty. *Journal of Development Economics*, 82(1), pp. 1–32. Also World Bank, The World Bank in China, 2019. [Online] Available at: <https://www.worldbank.org/en/country/china/overview>.

Whereas, using US\$1.90, Africa got close to eliminating extreme poverty by 2070, some forty years after the SDG 2030 goal, the newly established additional poverty lines moved the goalposts even further to the right.

Although some countries such as Botswana have experienced very rapid rates of growth, few have been able to translate this growth into rapid reductions in rates of poverty. This is not the case for all countries, though. Cameroon, Egypt, Ghana, Kenya, Mali, Mauritania, Senegal, eSwatini, Tunisia and Uganda have all been relatively efficient in transmitting income growth into poverty reduction, generally because of relatively lower levels of inequality and the implementation of various additional poverty reduction measures.²³

The Potential of Social Grants to Reduce Poverty

The extent of poverty in Africa, and the various factors that reinforce it, makes it clear that there are no quick fixes to reduce extreme poverty. Beyond policies that accelerate economic growth and redistribution, African governments can reduce poverty by investing in education, job creation and the provision of basic services, as discussed in previous chapters.

Discussed in Chapter 6, improvement in education is generally perceived as the great leveller that can eventually allow for more complex, productive and hence better-paid work. But improvements in education take a very long time to impact upon inequality and poverty.

Second, large increases in employment in the formal sector can push up low-end wages and reduce inequality. Being part of the formal sector locks workers into annual wage negotiations, allowing them to qualify for sick leave and other benefits and to be part of pension schemes. This is discussed in more detail in Chapter 9, where I look at the very large component of employment in the informal sector and the challenges that need to be overcome to create jobs for Africa's rapidly growing population.

Social grants have proven to be an effective short-term solution to assist the poor and alleviate extreme inequality. This is demonstrated by the impact of grant programmes in countries as diverse as Brazil, South Africa and India. In its original conceptions, income grants were conditional. Poor people were provided with food stamps or other means to subsidise food, education and transport if they fell below a certain income threshold. The latter had to be monitored through regular means testing, i.e. is the beneficiary still alive, does

²³Cillier, J., Hughes, B., and Turner, S., 2015. *Reasonable Goals for Reducing Poverty in Africa: Targets for the Post-MDGs and Agenda 2063*. Pretoria: Institute for Security Studies.

he/she still qualify for the income grant, etc.—a process which is cumbersome and costly.

Recent years have also witnessed a steady move towards universal, non-means tested grants in other countries, including South Africa where the ruling party has placed particular emphasis on redistributive policies rather than on growth. Whereas in 1994 four million South Africans received social grants, that figure has expanded to more than 17 million and is set to increase further. Today, social grants in some form or another are paid to 46% of South Africans.²⁴

But as we saw when examining poverty levels in different African countries, even with this hugely expensive and expansive grant system, more than half of South Africans still live in extreme poverty (using US\$5.50). With only 7.28 million taxpayers out of a total population of 58 million, the South African system is eventually unsustainable without much more rapid economic growth.²⁵ Without significantly higher economic growth, extreme poverty in South Africa is unlikely to decrease as it squeezes out productive government spending in favour of spending on consumption.²⁶

Another positive example of where social grants were used as part of a poverty reduction strategy is India with a government heavily committed to a campaign to ensure that every Indian has a bank account, is linked to the internet and can be biometrically identified.

The Aadhaar (meaning foundation) project started off as a voluntary programme to help tackle corruption and fraud. Today Aadhaar offers the first national database of the Indian population. It has enrolled more than 1.1 billion Indians on its biometric, digital and physical identity system. Linking bank accounts to biometric identification and cell phones creates a system that can overcome the pervasive corruption that is often part of social grant systems where large amounts of cash are doled out to sometimes illiterate beneficiaries by poorly paid officials who are themselves often destitute.

Aadhaar requires that each person goes through an enrolment process, during which a facial photograph, ten fingerprints and scans of both irises are recorded along with the citizen's demographic information (name, address,

²⁴South African Social Security Agency, Fact Sheet: Issue No. 14—February 2018 A Statistical Summary of Social Grants In South Africa. [Online] Available at: <https://www.sassa.gov.za/Statistics/Documents/Fact%20Sheet%20-%20Issue%20No.14%20%E2%80%9320February%202018.pdf>. Accessed on 5 January 2020.

²⁵BusinessTech, 2017. *This Is Who Is Paying South Africa's Tax*. [Online] Available at: <https://businesstech.co.za/news/finance/207631/this-is-who-is-paying-south-africas-tax/>.

²⁶StatsSA, 2015. *A Statistical Summary of Social Grants in South Africa*. Pretoria: Strategic Monitoring Branch: Strategy and Business Development. See also Zembe-Mkabile, W., 2017. *Social Grants: More Than Just Money at Stake*. [Online] Available at: <https://www.news24.com/Columnists/GuestColumn/social-grants-theres-more-than-just-money-at-stake-20170314>.

gender and date of birth). Once the enrolment is completed and the biometric data verified, he/she is issued with a 12-digit unique identification number.

The advantages are clear—service providers can verify the identity of a person with the Unique Identification Authority of India. Registration on the system is required to open a bank account, file a tax return or to get a sim card. Using mobile phone systems, funds (including social grants) can now be transferred directly to individuals doing away with physical cash payments. There are, of course, risks with such systems, particularly in autocratic countries such as China where government control of such systems readily translates into political and population control measures.

Many African countries are doing the same, but in some, such as Kenya where corruption is truly endemic, repeated efforts to collect the biometric data of its population and establish a national ID system is treated with deep suspicion as yet another means by which politicians can manipulate situations to their advantage.²⁷

A second, more radical concept than social grants is the idea of a Universal Basic Share. A Universal Basic Share would be an equal payment to all citizens, without any conditions or a means test. While this concept is also under consideration in some rich countries, the attraction of a Universal Basic Share lies in its simplicity. Instead of having to determine if an individual falls below a certain income level and hence meets the means test, the payment is simply made to everyone above a certain minimum age.

The problem with a Universal Basic Share payment may actually not be the availability of money but the tax policies of African governments. Tax rates in Africa are notoriously low, largely because African governments ‘forgo revenues worth almost a third of those they actually collect’²⁸ through a bewildering array of tax breaks to donors, special economic zones and by offering tax holidays to big investors, often mining houses. Thus ‘tax collection in Africa resembles an exasperating fishing expedition, in which the big fish wriggle into tax havens and the tiddlers hide in the informal sector’.²⁹

In addition to low rates, inefficiencies in revenue collection mean that African governments forgo large amounts of tax revenue.

²⁷Sounds BBC, 2019. Kenya’s Controversial Biometric Project. [Sound Recording] (World Service).

²⁸*The Economist*, 2018. African Governments Let Too Many Taxpayers Off the Hook. [Online] Available at: <https://www.economist.com/finance-and-economics/2018/08/18/african-governments-let-too-many-taxpayers-off-the-hook>. Also see Coulibaly, S. B., and Gandhi, D. 2018 *Mobilization of Tax Revenues in Africa State of Play and Policy Option*. Brookings. [Online] Available at: <https://www.brookings.edu/research/mobilization-of-tax-revenues-in-africa/>.

²⁹Ibid.

Today the debate around poverty alleviation includes the question whether various subsidies, particularly on fuel, shouldn't be replaced with direct cash transfers. Would it not be more effective to simply give farmers cash instead of trying to subsidise inputs such as seed or fertiliser?³⁰ However, this could create another problem, as direct cash transfers over extended periods of time can lead to dependency and reduce the incentive to undertake or seek employment. Why would a farmer try and improve productivity if he/she could live off a government grant? I return to this matter in Chapter 9 where I look at the future of employment in Africa.

The experiences of different countries illustrate the complexities involved in cash grants. While modern technology can solve most of the issues around corruption, the essential challenge of dependency on state grants must also be addressed. The challenge therefore goes beyond reducing poverty in the short term. The actual question is how African economies can be transformed to ensure sustained income growth in the long term. How to get people off social grants and into paid employment with taxable incomes?

To this end social protection policies are best employed in tandem with other economic reform efforts that focus on changing the productive structures. In Egypt, for example, the *Takaful* and *Karama* (Solidarity and Dignity) conditional and unconditional cash transfer programme was launched in 2015 and covers 2.26 million households—approximately 10% of Egypt's population.

Takaful and *Karama* were introduced to cushion the impact of Egypt's ambitious 2014 economic reform programme that included the removal of energy subsidies, the adoption of a flexible exchange rate and the introduction of new value-added tax. The government has also scaled up its social protection programmes. The *Takaful* (solidarity) part of the programme provides modest unconditional monthly pensions to elderly and disabled citizens while *Karama* (dignity) provides conditional family income support aimed at increasing food consumption, reducing poverty and encourages families to keep children in school while providing them with health care.³¹

In the meantime, modern technology now makes a social grant system feasible in which much of the inefficiency and corruption of past programmes can be avoided.

The political and practical challenges for many of the measures set out in this chapter should, however, not be underestimated. In Ethiopia, one

³⁰For example in India the fertiliser subsidy alone is about 0.8% of GDP and is hugely distortionary.

³¹The World Bank, 2018. The Story of *Takaful* and *Karama* Cash Transfer Program. [Online] Available at: <https://www.worldbank.org/en/news/feature/2018/11/15/the-story-of-takaful-and-karama-cash-transfer-program>.

of Africa's top performers, efforts launched in 2006 to expand the tax base initially made steady progress but then stalled for several years after the death of Prime Minister Meles Zenawi in August 2012. Zenawi had championed the reforms and insulated it from political interference. When he died, tax reform, modernisation and increased revenue collection ground to a halt, although there were signs in 2018 of a renewed push under Prime Minister Abiy Ahmed. Total taxes collected nearly tripled from US\$1.3 billion in 2007 to US\$3.8 billion in 2013 and by 2017 it reached US\$7.8 billion. As a share of total government revenue, the contribution from tax grew from 48% in 2007 to 82% in 2016. Therefore, the growth in revenue collection failed to keep up with an economy that, on average, was growing at more than 10% per annum since 2000.³²

The Promise of an African Welfare State?

In the past, today's developed countries responded to the problem of inequality and large-scale unemployment with the creation of a welfare state. In such a system the state plays a key role in the protection and promotion of the economic and social well-being of its citizens.

This was possible because these (mostly Western) states were strong, having evolved through external war and competition, including the extraction of resources from colonies into a system of governance that was underpinned by a social contract between the elected government and its citizens. In return for compliance and taxes, governments provided services and protection.

At the heart of the welfare model are various mechanisms through which the state provides key services such as education and healthcare and redistributes income from richer to poorer people through a progressive tax system. Modern welfare states include Germany and France but it is most developed in the social democratic system in the Nordic countries. This system, which has created the most advanced, egalitarian and competitive societies in modern history is rooted in the bitter experience of centuries of war and poverty.

The Nordics are all small, open economies that export a large portion of GDP into a highly competitive world. Wage inequality is among the lowest globally yet they have higher sustained economic growth than most, which is largely a function of the fact that as a group these countries have loitered in

³²Schreiber, L., 2018. *Funding Development: Ethiopia Tries to Strengthen its Tax System, 2007–2018, Innovations for Successful Societies*. Princeton University.

the demographic sweet spot for economic growth with ratios of 1.7 working age persons to dependents for successive decades (see Chapter 4).

A number of highly developed countries that are very exposed to international competition have therefore managed to simultaneously invest in greater social inclusion and in building globally competitive economies. Admittedly, this social consensus is under considerable political pressure today, even in a country like Sweden, but that may be due to the successes achieved in the past and the political impact of migration, rather than to other factors.

The kind of welfare societies found in the Nordic countries with their low inequality and a degree of economic security provided by the state are good for growth. Since the 1930s, economic growth per capita in Sweden and Norway (even if one excludes oil income in Norway) has been higher than in the USA over the same time period.

In the long run, a more inclusive and less unequal society eventually also becomes a higher growth economy. Contrary to the history of the USA (a classic immigration country), these countries evidence strong labour unions and strong worker associations that have resulted in wage moderation and assisted in modernisation. The social contract is strong. And as a result, high-end wages in these countries are lower than they otherwise would have been. The wage differential between the least and most productive enterprises are also much lower than in more unequal countries such as the USA.

Social institutions have therefore been crucial in creating the high productivity economies of the Nordic countries. They serve as equalising institutions that constrain the growth of inequality by lifting low-end wages and pushing down on high-end wages.

There are, of course, also many variations on the welfare state and permutations that range from conservative to liberal. As people have become more wealthy, their desire for autonomy, to be free from the helping hand of the state, tends to increase. And then, with the ageing population structure in many Western and some Asian countries, caring for older people suffering from costly non-communicable diseases has become a big burden. The welfare state is therefore increasingly under pressure, even in the Nordic countries, but this is only after these countries had become extraordinarily productive and wealthy.

In some countries like South Africa, in Latin America and in some parts of Asia, the notion of a welfare state has followed a completely different pathway, largely moving towards the introduction of conditional and lately unconditional cash grants.

To reiterate—there are obviously huge differences between the classic welfare state tied benefits to economic activity evident in developed countries and the situation in much of Africa where formal sector jobs are scarce. The essential question is, however, if there is going to be sufficient jobs in the formal sector, and since improved average levels of education are going to take a very long time to achieve, what are the options for a continent facing such high levels of inequality and poverty?

In addition to the policies discussed and presented in other chapters, for instance around education, the structural transformation of economies and how to provide many more jobs, Africa will also have to accelerate efforts to roll out social grants to alleviate extreme poverty. In the next section, I model the potential impact of such efforts and present its impact on poverty and inequality.

Modelling the Impact of Using Tax Revenues for Social Grants: The Social Grants for Africa Scenario

To forecast the impact of social grants on poverty reduction in Africa, the first step is to raise additional funds through increased taxes on skilled households and firms, and then to transfer those funds as social grants to poor households. The exact interventions used for the scenario is at www.jakkieliers.org.

By 2040 African governments would raise US\$298 billion in additional taxes in this scenario. This is large, but the size of the African economy, in market exchange rates in 2040, is forecast to be US\$7.2 trillion. On average, the government to household welfare and pension transfers in Africa increase by 3 percentage points of GDP as from 2030, equating to US\$150 billion and US\$245 billion above the Current Path forecast by 2030 and 2040.

In terms of progress towards the SDG headline goal of eliminating extreme poverty by 2030 using the US\$1.90 income measure, the Social Grants for Africa scenario will reduce extreme poverty in Africa by 25 million people, or by about 1.2 percentage points by 2030. Using the total from the three extreme poverty measures at US\$1.90, US\$3.20 and US\$5.50 for the respective country income groups the results are 25 million fewer persons in extreme poverty by 2030 and 34 million fewer by 2040.

The results are presented in Fig. 7.2 that shows the difference in millions of extremely poor people in the Social Grants for Africa scenario compared

Fig. 7.2 Change in millions of extremely poor people in Africa: Social Grants for Africa scenario compared to Current Path in 2030 and 2040 (*Source* IFs 7.45 initializing from United Nations Population Division World Population Prospects medium variant life expectancy and World Development Indicators data)

to the Current Path forecast for low, lower-middle and upper-middle group of countries.

Inequality comes down in all three country income groups, although the impact is most significant in upper-middle-income countries coming off a higher base.

This represents solid but unspectacular improvements in the livelihoods of a large portion of the African population. Safety nets help to reduce chronic poverty and to limit the impact of shocks on poor and vulnerable households but clearly much more is needed.

It is evident that the Social Grants for Africa scenario does not change the rather dismal extreme poverty forecast that was explored in this chapter and that it should not be viewed in isolation from the other scenarios that are set out in this book such as on agriculture and manufacturing. Rather, it should be seen as a measure to reduce absolute deprivation for poor people who otherwise would continue to suffer since they have limited opportunities to improve their dire situation through better education or job opportunities. It is an important policy that can cushion the impact on the poor and vulnerable of other reforms such as the removal of fuel subsidies and tax reforms that generally benefit the middle and upper classes.

Conclusion: Reducing Poverty Through Rapid and Inclusive Economic Growth

Generally, poverty reduction requires rapid economic growth, redistributive policies such as progressive taxes, investments in health and basic infrastructure, improved levels of education, as well as investments in agriculture.

With a declining agriculture and manufacturing sector and an increase in the relative contribution of the services sector along the Current Path, Africa is likely to experience only slow reductions in poverty.

Agriculture is usually the sector with the biggest potential impact on poverty reduction. This applies particularly to low-income economies. And indeed, the scenario on Revolution in Agriculture in Chapter 5 achieves more than four times the reduction in the number of Africans living in extreme poverty in 2040 than the scenario on Social Grants for Africa.

The IFs Current Path forecast suggests that most African countries will make only slow progress to reduce extreme poverty, with the bulk of extremely poor people increasingly concentrated in countries like Nigeria, the Democratic Republic of Congo and Madagascar. However, with the right policies and a dedicated effort more rapid progress is possible.

African governments need to make a greater effort to introduce large-scale social assistance schemes, something along the lines of Universal Basic Share mentioned earlier. In other words, to reduce poverty, temper rising inequality, and to alleviate suffering, African governments should establish or expand cash grants, giving poor people small amounts of money that they can spend on their most important needs such as education for their children, transport, food, etc. Such measures are much better than fuel or other subsidies that tend to lock governments into expenditure that may fluctuate wildly and create an obligation that is difficult to scale down later or remove. In effect, social protection is an important tool that can be used to cushion the impact of policies that focus on economic growth. It is possible to be pro-growth and inclusive at the same time.

However, none of this is possible without a huge push to provide Africans with secure identity systems and the establishment of a national population register in each country. Even the SDGs recognise that some form of official proof of identity is a prerequisite to participate in a modern economy and to access basic rights and services. The advances in digital technology, with biometrics and its incorporation into ID systems, means this can be made available much more rapidly and cheaply than before—an issue I turn to in Chapter 10.

So if the time has come to give consideration to an African welfare state, the question is how can the inescapable need to reduce poverty and combat inequality be reconciled with the need for greater productivity in African economies? Efforts at a welfare society will offset the symptoms of underdevelopment but will not deal with the underlying causes.

To develop, Africa needs to transform its economies to become more productive and enable more rapid income growth. Traditionally that has been achieved through industrialisation, which is the topic of the next chapter.

Further Reading

United Nations Development Programme, Income Inequality Trends in Sub-Saharan Africa: Divergence Determinants and Consequences. www.africa.undp.org/.

World Bank, Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle. openknowledge.worldbank.org/.

World Poverty Clock by World Data Lab. <https://worldpoverty.io/>.

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