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'The End of Poverty'

2004 OXONIA Inaugural Lecture

by

Prof. Jeffrey D. Sachs (Columbia University)

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Professor Sachs argued that, with political will and a relatively modest amount of resources, extreme poverty could be eradicated from the world within a generation. He set out why the macroeconomic models which explain the economic growth of the richest countries and the prospering developing countries are not appropriate in explaining economic growth in the poorest countries. Rather than weak institutions and poor "governance", he argued that these countries are principally hampered by the impacts of physical geography; endemic disease; vulnerability to climatic changes; barriers to transportation. He went on to show how these causes of poverty and misery could be tackled through concerted and straightforward investments by the richest countries. He made a strong plea for the leaders of the rich countries to realise that global political instability and insecurity could only be addressed if they responded urgently and effectively to the desperate vulnerability and poverty of one sixth of the world's population.

Sachs took 'extreme poverty' to mean living on less than 1 USD per day. Broadly speaking, he divided the population of the world into three categories: the richest, constituting around one sixth of the world's population and enjoying average per capita income of over 9,000 USD per annum; the middle income, made up of the 2.6 billion of people who live on between 750 and 9,000 USD per annum; the poorest, around 2.4 billion who live on less than 2 USD per day (which includes the 1 billion living in extreme poverty at incomes below 1 USD per day).

Macroeconomists, Sachs argued, have found that models of endogenous growth do a fair job of explaining the growth pattern in the world's richest nations. The middle income countries have varying performances, displaying some common characteristics which fit well with an earlier generation of growth models based around capital accumulation. These countries are doing much to reduce world poverty. The amazingly rapid growth of China, Southeast Asia and most recently India, was, Sachs said, the truly wonderful thing about the world in the last 25 years. Yet these theories do little to explain the situation facing the world's poorest countries.

Sachs was highly critical of the poor level of knowledge economists have about these countries. The 49 Least Developed Countries (LDCs) are particularly badly off and many of them have faced almost unremitting crises over the last 25 years. The poor explanations put forth by economists about why countries are poor reinforce the poverty trap the poorest countries are in. The typical reasoning, exemplified by the current US administration, is that poverty is the fault of poor countries, either because of outright corruption or poor "governance." This reasoning is not adequate or defensible.

Sachs set out the view that he has come to after many years of investigation and research: that the limits of physical geography are very real inhibitors of development in the poorest countries. Working simultaneously on economic development in Vietnam and Bolivia helped him realise that Bolivia's slower growth rate was due not to its poorer institutions or policy choices, but to the enormous problems of geography faced by a mountainous, landlocked country. Similarly, when he came to look at the inhibitors to growth in sub-Saharan Africa, he was struck by the prevalence of disease and the high mortality rates. He found that a significant share of the slower growth rate in sub-Saharan Africa can be explained if one introduces a variable for the propensity of malarial transmission into a growth model.

Sachs was at pains to reject the argument which many economists had used in retort to his articles: that malarial prevalence was endogenous to economic growth. Drawing on research in epidemiology, Sachs compared the basic reproductive number for malaria in the USA and southern Europe and in Africa. When this figure is less than 1, the disease naturally burns itself out. When it is greater than 1, epidemic behaviour results. The figure for the USA and southern Europe was close to 1. The figures for much of Africa are on the order of 50, or 100, or more. The reason for this is, again, physical geography: higher temperatures, precipitation, and the presence of mosquito species more likely to bite humans make the continent the natural epicenter of the disease.

Sachs stressed the link between the vulnerability of the poorest populations and the wider instability in the global system. Too readily, the developed world looked on conflict in the poorest states through a military optic.

Taking the example of Sudan, he argued that this was not, principally, an ethnic conflict. As in much of Africa, Sudan has a fragile climate in which agriculture is precarious because it is rain-fed and not irrigated by rivers. The rains have been increasingly failing in Sahelian Africa, probably due to the warming of sea temperatures in the Indian Ocean. Whereas previously there had been a symbiotic relationship between camel herders and farmers, these two groups were now in conflict over scarce territory for farming and grazing. The focus of their conflict was in the Darfur region. Sachs argued, therefore, that the problems in Darfur would not be resolved by the US offering to train local armies but that it might be resolved by investing in water pumps and alternative solutions for agriculture.

The bottom line, Sachs argued, was that appropriate investments to tackle the problems of physical geography faced by the poorest countries are crucial if we are to end extreme poverty. Providing bed-nets would cost 5-6 USD per household and can break over 90% of the transmission of malaria. Yet at present, only around 2% of households in areas of Africa where malaria is endemic use bed-nets. An investment in effective drugs would go further. Improving infrastructure and building roads would allow for the delivery of fertiliser to stimulate a Green Revolution in Africa. Other, simple investments could be made at relatively little cost to the rich world.

Sachs concluded that the next 12 months could be an historic turning point in the world's efforts to reduce poverty. All the investments Sachs had described could be made for around an additional 80 billion USD per year. The US's share of this increase would be around 40 billion USD. To put this in context, Sachs pointed out that this was the value of the tax cut the Bush Administration had given to US households earning more than 500 thousand USD per year. Sachs lamented that the richest households could save the poorest in the world but choose not to and then wonder why they live in an insecure world. He emphasised that we have the potential to invest our way out of instability and insecurity if we make the right choices.

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