

No Real Development Without Economic Growth – Part 1

WASHINGTON – International development is generally defined by practitioners of this craft as “*the fight against poverty*”. I totally disagree with this approach that focuses on poverty, the practical manifestation of lack of economic growth, instead of dealing with the real problem that I define as: “*What does it take to get sustained growth, since growth is the prerequisite for economic and social progress in all societies*”? Fighting poverty is about fighting the symptoms, the practical manifestation of a lack of economic growth. What we want is healthy, productive societies that will create more wealth, and thus more widespread well-being. More growth means less poverty.

Fighting poverty

Indeed, how an issue is defined goes a long way in shaping the nature of the efforts aimed at dealing with it. And, in this instance, the definition of both the problem and the solution is wrong. As I said above, the broad objective of the international development community vis-a-vis poor countries, (politely described as lesser developed countries), has been defined as “*poverty reduction*”, or “*the fight against poverty*”.

The World Bank, the most important multilateral lending institution focusing on development, is “*Working for a World Free of Poverty*”. Its Mission statement is “*To fight poverty with passion...*”

So, poverty as a condition, rather than promoting sustainable policies that will allow societies to get out of poverty for good, is the focus of donors’ attention.

Public relations

To some extent, this emphasis on *“fighting poverty, or “poverty alleviation”* is simply public relations. It is an attempt to deflect the critiques of the anti-global movement that, years ago, while elaborating its bizarre conspiratorial theories that would capture the root causes of all the planet’s ailments, bunched together the World Trade Organization, the International Monetary Fund, the World Bank, and Multinational Corporations. It defined all of them as a clique of demonic players working together to further mankind’s misery in general, and the exploitation of the third world in particular.

Hence the pressure on the maligned *“development industry”* to do something in order to improve its image. It tried to do this by presenting to its critics noble institutional objectives that would humanize their institutions. *“Hey, Mr. & Ms. No Global, you are mistaken. We are the Good Guys. We are with you. We are fighting poverty. We are completely focused on helping the poor. There is no other agenda”*.

Christians ethics encourage giving

Undoubtedly there are other cultural/religious factors that can help explain this *“fight against poverty”* focus. At least to some extent, the Good Samaritan attitude stems from religiously derived ethics formulated by the Christian cultures that shaped the values, and therefore policy propensities, in many of the Western countries which *“invented”* the development industry.

Indeed, if we go back to the roots of this humanitarian approach, we see that over the centuries within Christendom we have seen the proliferation of a vast universe of charitable initiatives –many of them organized and run by religious institutions– aimed at aiding the poor.

Within Christianity, the moral obligation to give to the poor is the other side of a parallel moral bias against excessive

wealth ever present in Christian ethics. The remedy to social inequality is for the rich to give away some of their (ill-gotten?) excess wealth to the poor, sometimes called “the less fortunate”.

But, in general, the Christian moral obligation to give to the poor was never aimed at having a truly transformative economic and social impact. It was meant as a good deed that would somewhat alleviate the painful conditions deriving from a state of poverty which was, however, considered to be a permanent feature for some segments of society.

Plenty of relief activities that are not transformative

At a different level, it is difficult to evaluate the deep motives of modern day wealthy philanthropists who contribute to relief initiatives, whether defined as “poverty reduction” or otherwise. But it would appear that the likes of Bill Gates fall pretty much in the same category of those who attempted to redress and alleviate.

For instance the children immunization goal pursued, no doubt very competently, by the Bill & Melinda Gates Foundation, noble as it is, taken by itself, is not transformative. True enough, immunized children in Africa will not die of common diseases. But chances are that, unless other critical changes will take place within their societies, they will be alive but still condemned to a miserable (and short) life of abject poverty.

(This approach based on partial interventions that do not help economic development may be changing. The Gates Foundation and other wealthy donors are now shifting to initiatives aimed at fostering the creation of opportunity in poor countries, for instance through upgrades in education. They begin to appreciate that a new mind set, new values and new skills can and should be the foundations for wealth creation activities that will help transform these societies).

Poverty as “bad luck”

More broadly, the issue of poverty is really not well understood in Western Christian culture. So much so that it has been explained away. Historically poverty has been regarded as a product of bad luck for some that can and should be somehow mitigated through faith-inspired charity performed by the rich. Indeed, even today in polite company in the Western World the poor are often described as “*the less fortunate among us*”.

Let’s think about it. We, the well off, “*have*” because we have been fortunate. The poor, alas, less so. Again, words have meaning. According to this definition, our economic station in life is determined by having been more or less “*fortunate*”. Which is to say that the possession of material wealth is all about random distribution of luck. The poor happen to be poor because –look at that– they have been less fortunate than we have.

Successful capitalism has nothing to do with luck

At some level this is true, especially in the case of children. Some are born in rich circumstances and some are born poor. Clearly those who were born in privilege have an enviable head start in life.

But this is only a small slice of reality.

Please, consider this. Most millionaires in the U.S. are self-made people, as opposed to being mostly “lucky” beneficiaries of inherited wealth. This means that an open economic system, protected by laws and independent courts, free institutions, transparent rules and no artificial barriers to entry, encourages people to try and forge a better life for themselves.

It is abundantly clear that all this has nothing to do with “*being fortunate*”. And yet the use of these misleading

definitions distracts us from confronting the real issues.

Poverty will be eliminated through successful enterprise

Poverty is mostly about the bad combination of lack of education, lack of capital and economic opportunity, and lack of entrepreneurial drive – all of them necessary preconditions to start and fuel wealth creating activities.

If we do not tackle these issues –education, opportunity, entrepreneurship– by creating at least an embryo of the institutional eco-system that opens up opportunity and by instilling the will and the ability to create enterprise, we shall continue to provide humanitarian relief to the poor, without offering a realistic new path to growth.

Borrowing from the old story about the qualitative difference between giving somebody a fish and teaching them how to fish, to date the fish hand outs continue, while the fishing schools are scarce, or non existent.

The eco-system

Even the most superficial analysis shows that wealthy societies did not become wealthy because of random circumstances; because people who live there won a major lottery.

Leaving aside all the defects of capitalism, at a macro level capitalistic economies have been successful because the institutions created by capitalistic societies allowed –or better yet promoted– a reasonably good functioning of the engines of wealth creation mobilized and run by private initiatives. As a result of the productive activities created through these engines, poverty, at least extreme poverty, has been eliminated.

Which is to say that prosperity is the outcome of a mind set focused on wealth creating activities on the part of many

inventors, innovators and risk taking capitalists. They create the businesses that create employment and therefore more prosperity. The aggregate outcome of all these efforts, consisting in a vastly improved standard of living for most, has nothing to do with "being fortunate". it is all about being creative, industrious and persistent.

Relief as opposed to growth

But this is not how the issue is framed by the development community. The development practitioners have identified "poverty elimination or reduction" as the core development mission.

In so doing, wittingly or unwittingly, they focus (*and make us focus*) mostly on the effect of lack of economic development (poverty) and what we should do about alleviating it through donations and relief activities, rather than on a credible way out of it that can only be centered on a viable economic development agenda fully owned and promoted by the people who live now in poor countries.

(See the rest and conclusion in Part 2, to be posted tomorrow)