Poverty and Shared Prosperity 2022: Correcting Course

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The UNs' SDG call for ending extreme poverty by 2030. The report describes how the world entered the COVID-19 crisis already in a weak position-The target was already slipping out of reach, and extreme poverty reduction progressed more slowly between 2014 and 2019 than previously. By 2030, the poverty rate is expected to be 7 percent. There is an urgent need to correct course.

- COVID-19 marked a turning point in the 30-year pursuit of successful poverty reduction- a setback most likely since world war II. Global poverty had declined 38% of the global population in 1990 to 8.4% by 2019.
- The number of people living in extreme poverty likely increased by 11% in 2022 majorly in South Asia.
- The pandemic also increased global inequality as the world's poor paid the highest price. Extreme poverty was highest among children
- The effects were uneven highlighting that a country's economic structure and policy response mediated the welfare effects of the common global crisis.
- The largest increases in poverty were observed in LICs and LMICs. In UMICs, poverty actually fell in 2020, driven in part by fiscal support in large UMICs, such as Brazil and South Africa.

The non-monetary dimensions of the pandemic and its impacts may ultimately prove to be more costly than the monetary dimensions:

- The lost learning of students and significantly higher global mortality rates. In fact, the world experienced the first decline in global life expectancy since the end of World War II
- Persistence of poverty from learning losses will exceed the crisis-induced poverty shock for many countries (80%) as the drag on growth could persist for decades if unaddressed.

The pathways countries followed have exacerbated global inequality, with richer countries recovering faster as their households and firms are endowed with wealth and superior health and education systems and are able to adapt to changing circumstances. Hence policies promoting development enable more resilience in the face of crises.

Some lessons to learn from this global experience:

- Not only we need to improve fiscal policy but also be clear-eyed about the limits of protecting poor and vulnerable households through fiscal policy.
- Despite a large negative labour market shock, well-targeted fiscal support mitigated the impact of the crisis on poverty in South Africa
- LICs relied almost entirely (95%) on international support to finance a fiscal response.
- The structure of the economy also limited the type and impact of fiscal policy tools. Providing wage subsidy support or support needed to save jobs to firms was almost impossible in countries with large informal sectors. It's a challenge to raise revenue without increasing poverty in such countries

Recommendations :

Spending for faster growth today :

- Avoid rapid withdrawal of income support: In Brazil, dropped emergency transfers combined with a labour market that had not yet fully recovered, resulted in an increase in poverty.

- Cash transfers are a more effective mechanism for supporting poor and vulnerable groups than subsidies which benefit richer households more(>60% spending on cash transfer goes to bottom 40%)
- cash transfers help make crucial long-run investments(educating children),stimulate local economy & increase government revenue. Indonesia reaped these benefits as it reoriented.
- Kick starting income growth -effective spending instead of spending more is required. H*ighest-value policies* are those that ensure transformative growth. Policies that improve child outcomes are often of high value, across contexts.
- Increasing productivity and employment in enterprises, supporting MSME etc.

Spending for tomorrow: Prioritizing spending with long-run impacts

- Prepare by Expanding the reach of automatic stabilizers (employment guarantee schemes like MGNREGA where informal sector is large) and Set up adaptive cash transfer programs.
- Invest in data and research to guide future investments.
- We often see underinvestment in such beneficial policies as their benefits accrue over the long term.

When needed raise revenue without making poor worse off.

- Increasing property tax and newer forms of progressive tax such as health and carbon tax
- Improve the progressivity of taxes especially personal income tax and corporate tax
- Considering indirect taxation and accompanying direct transfer that offset negative effects

Poorer countries rely more on indirect tax which are less progressive. Taxes and spending reduce inequality in all economies but less in low-income than in high-income economies. Direct taxes and transfers, Health and education spending always reduce inequality.

Read more: https://openknowledge.worldbank.org/bitstream/handle/10986/37739/9781464818936.pdf

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