

CORRECTING COURSE

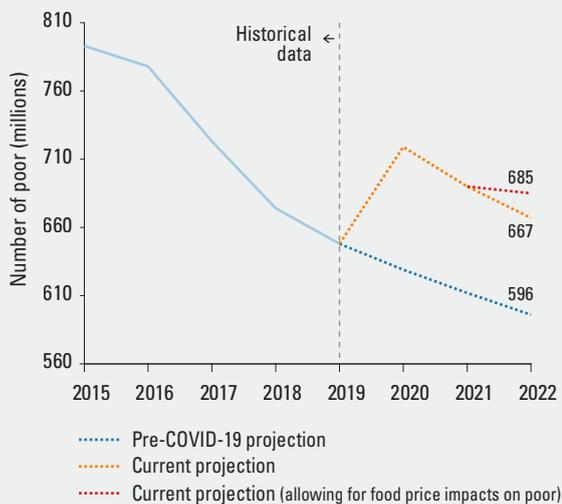
The World Bank's Poverty and Shared Prosperity report provides the first comprehensive look at global poverty in the aftermath of an extraordinary series of shocks to the global economy. Correcting course is both urgent and difficult, but it is now time for policy makers to put everything they can into the effort.



The COVID-19 pandemic dealt the biggest setback to global poverty in decades. The pandemic increased the global extreme poverty rate to an estimated **9.3% in 2020—up from 8.4% in 2019.** That indicates that more than 70 million people were pushed into extreme poverty by the end of 2020, increasing the global total to over 700 million.

2020 marked a historic turning point—an era of global income convergence gave way to global divergence. The world’s poorest people bore the steepest costs of the pandemic. Incomes in the poorest countries fell much more than incomes in rich countries. As a result, the income losses of the world’s poorest were twice as high as the world’s richest, and global inequality rose for the first time in decades.

Poverty reduction resumed slowly in 2021, but may stall in 2022



The poorest also suffered disproportionately in many other areas that directly affect their well-being. For example, they faced large setbacks in health and education, with devastating consequences, including premature mortality and pronounced learning losses. These setbacks, if left unaddressed by policy action, will have lasting consequences for people’s lifetime income prospects.

The economic recovery from the COVID-19 pandemic has been uneven. The richest economies have recovered from the pandemic at a much faster pace than low- and middle-income economies. Rising food and energy prices—fueled by climate shocks and conflict among the world’s biggest food producers—have hindered a swift recovery.

By the end of 2022, as many as 685 million people could still be living in extreme poverty. This would make 2022 the second-worst year for poverty reduction in the past two decades (after 2020).

These setbacks occurred when the speed of progress toward poverty reduction was already slowing. In the five years leading up to the pandemic, poverty reduction had slowed to 0.6 percentage point per year. Before 2020, the world was already significantly off course on the global goal of ending extreme poverty by 2030. This report projects that 7 percent of the world’s population—roughly 574 million people—will still struggle in extreme poverty in 2030. That is far short of the global goal of 3 percent in 2030. Further, the report shows that in 2019 nearly half of the world’s population (47 percent) lives in poverty when this is measured as living on less than US\$6.85 a day.

These setbacks call for a major course correction. Despite difficult global and domestic circumstances, policy makers must redouble their efforts to grow their economies in the coming years—while paying careful attention to who benefits from that growth. The need for growth that boosts the incomes of the poorest could not be greater than it is today.



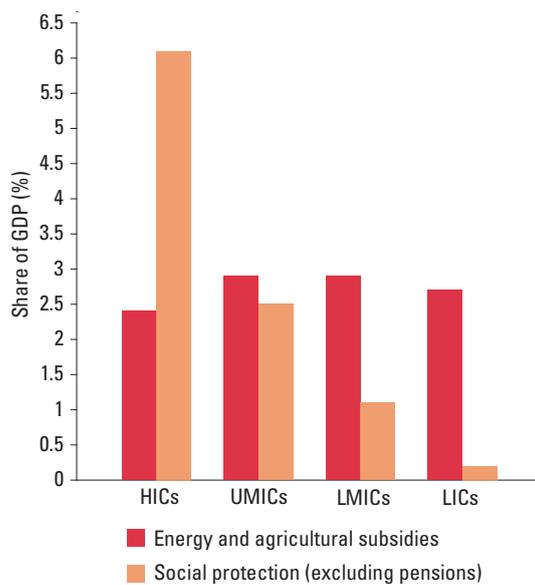
In general, low- and middle-income economies tend to be less successful than high-income ones in ensuring that taxes, transfers, and subsidies benefit the poor.

Resilient recovery will depend on a wide range of policies. This report focuses on fiscal policy—a key area at the center of pandemic and post-pandemic responses. Fiscal policy concerns how governments raise revenue and spend public resources. This report offers new analysis on how fiscal policy was used during the first year of the pandemic. It also sheds light on the impact of taxes, transfers, and subsidies on poverty and inequality in 94 countries before 2020, providing important new insights into the impacts of fiscal policy—not only during crises but also during normal conditions.

Fiscal policy made a noticeable difference in reducing the pandemic’s impact on poverty. Without it, the average poverty rate in developing economies, assessed at national poverty lines, would have been 2.4 percentage points higher than it was. Yet fiscal policy was much less protective in poorer economies than in richer ones. Most high-income economies fully offset the pandemic’s impacts on poverty through the use of fiscal policy, and upper-middle-income economies offset one-half of the impact. However, low- and lower-middle-income economies offset only one-quarter of the impact. The differences in effectiveness reflected more limited access to finance, weaker delivery systems, and higher levels of informality, which made protecting jobs much more challenging.

In general, low- and middle-income economies tend to be less successful than high-income ones in ensuring that the combination of taxes, transfers, and subsidies benefit the poor. Taxes finance spending on core services and investments, and transfers and subsidies can offset their impact on household incomes. But in two-thirds of low- and middle-income economies, the income of poor households falls by the time taxes have been paid and transfers and subsidies have been received. This divergence is due in part to the larger share of the informal sector in those economies. As a consequence, taxes are predominantly collected indirectly—through sales and excise taxes—and income transfers are often too low to compensate.

Subsidies are expensive in many developing economies, often exceeding social protection budgets



Given these structural challenges, this report identifies three key priority actions for fiscal policy in the coming years, as countries work to correct course:

1.

Reorient spending away from subsidies toward support targeted to poor and vulnerable groups.

Subsidies are often poorly targeted.

For example, one-half of all spending on energy subsidies in low- and middle-income economies goes to the richest 20 percent of the population, who consume more energy. In contrast, programs like targeted cash transfers are far more likely to reach poor and vulnerable groups. More than 60 percent of spending on cash transfers goes to the bottom 40 percent. Cash transfers also tend to have a larger impact on income growth than subsidies.

2.

Increase public investment that supports long-run development.

Some of the highest-value public spending—such as investments in the human capital of young people or investments in infrastructure and research and development—can have a beneficial impact on growth, inequality, or poverty decades later. Amid crises, it is difficult to protect such investments, but it is essential to do so. The COVID-19 pandemic has shown that hard-won progress achieved over decades can suddenly vanish. Designing forward-looking fiscal policies today can help countries to be better prepared and protected against future crises.

3.

Mobilize revenue without hurting the poor.

This can be accomplished through property and carbon taxes and by making personal and corporate income taxes more progressive. If indirect taxes need to be raised, cash transfers can be simultaneously used to offset their effects on the most vulnerable households.



Reforming fiscal policy will be an essential element of correcting course, but we must be realistic about how much we can expect it to do. Despite the promise of fiscal reforms, simulations suggest it will take heroic efforts toward more effective fiscal policy choices to restore the pandemic-related losses in the next four to five years. Successful fiscal reform will require the support of sufficiently powerful domestic coalitions interested in pursuing these types of policy goals, as well as stepped-up global cooperation.

Accelerating global poverty reduction, and progress toward the Sustainable Development Goals, will require more comprehensive policy action. This will involve a broader set of policies to stimulate the kind of growth that can benefit people across all income levels—but particularly those at the bottom. Correcting course is both urgent and difficult. Even if the course correction proves insufficient to end extreme poverty by 2030, it must begin now—for the sake of a lasting recovery from the overlapping crises of today.



Download the report
Poverty and Shared Prosperity 2022

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