

A Development Nightmare

By Kenneth Rogoff

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What if poor nations actually caught up with rich ones?

Indulge in a dream scenario for a moment: Suppose the world awoke tomorrow and, miraculously, every country suddenly enjoyed the same per capita income as the United States, or roughly \$40,000 per year. Global annual income would soar to \$300 trillion, or some 10 times what it is now. And while we're at it, suppose also that international education levels, infant mortality rates, and life expectancies all converged to the levels in rich countries. In short, what if foreign aid worked and economic development happened overnight instead of over centuries?

A heretical thought, perhaps. But I wonder sometimes what voters in rich nations must be thinking when they reward their politicians for cutting already pathetic foreign-aid budgets. Is it possible that, deep down, the world's wealthy fear what will happen if the developing countries really did catch up, and if the advantages their own children enjoy were shared by all? Would the dream become a nightmare?

Consider whether today's wealthy would materially suffer under such a scenario. As things now stand, 290 million U.S. citizens already cause almost one fourth of world carbon dioxide emissions. What if 1.3 billion Chinese and 1.1 billion Indians suddenly all had cars and began churning out automobile exhaust at prodigious U.S. rates? While the sun might not turn black and the ozone layer might not vaporize overnight, the environmental possibilities are frightening. And what of the price of oil, which is already notoriously sensitive to small imbalances in demand and supply? Absent huge new discoveries or brilliant new inventions, oil could easily reach \$200 per barrel, as consumption and depletion rates accelerate. The mighty U.S. dollar would become a boutique currency and the euro experiment a sideshow. Investors would clamor for Chinese yuan and Indian rupees. The world's youth would grow up thinking that "Hollywood" must be a wordplay on "Bollywood," and McDonald's hamburgers would be viewed a minor ethnic cuisine. And a country such as Canada would suddenly have the economic heft of Luxembourg, with much of its population reduced to serving once poor, now rich, international tourists.

Let's face it: The rich countries would no longer feel rich. Humans are social creatures; once we clear the hurdle of basic subsistence, wealth becomes a relative state of being. Even an optimist such as myself must concede that a world of equality between rich and poor nations would be shockingly different—and that is even disregarding the impact on global power politics. Still, such rapid economic development offers a clear upside for today's rich countries. Greater diversity and knowledge spillovers can breed much faster productivity growth, the ultimate source of wealth for everyone. Once properly educated, fed, and plugged in, inventive geniuses from South Asia and Africa might speed the development of clean and safe hydrogen power by two generations. And whereas commercial medical researchers might start spending more energy combating tropical diseases, now privileged citizens in temperate climates would still enjoy countless technological spin-offs. Indeed, such gains of rapid economic development could fully offset the losses to the rich.

By highlighting latent insecurities in rich countries, I certainly do not mean to endorse or stoke them. But these underlying fears must be addressed. If globalization really works, then what is the endgame? What kind of political institutions are necessary to prepare—socially as well as psychologically—for success? It is easy for everyone to endorse the United Nations Millennium Development Goals (MDG), which aim to satisfy basic human needs by 2015. (Unfortunately, the specific objectives are so limited that MDG ought to stand for the Minimum Development Goals.) But how far are rich nations willing to take development? How much are we prepared to give?

Of course, no one has developed a magic formula for how to make countries grow, though economic researchers have identified a number of poisons. Corruption, overweening government intervention, and mountains of debt are contraindicated for countries attempting to develop (which is one reason most foreign aid should be recast as outright grants instead of loans). Though critics are correct to argue that foreign aid stymies growth by breeding corruption and stifling private enterprise, the empirical evidence suggests that aid can be productive when it supports good policies. Does trade help countries grow? Again, my read of the evidence says yes: If Europe and Japan gave up their outrageous farm protection and if the United States stopped competing with India for the title of anti-dumping champion of the world, poor countries would gain far more than if their aid inflows suddenly doubled. And, by the way, if poor countries gave up their own trade protectionism, their citizens would benefit by even more.

Even so, rich countries could easily afford to triple their aid budgets without running the remotest risk of the “nightmare” scenario coming true. They could channel money into health in Africa, into education, and into infrastructure and other necessities with little danger of any rapid catch-up. (Though why the World Bank still lends to China, with more than \$350 billion in hard currency reserves and a space program to boot, is difficult to explain.) Gallons of aid money, such as what Northern Italy has poured into Southern Italy for almost 60 years, help assuage development’s growing pains, but progress rarely occurs quickly. Growth economics suggests that poor regions have a hard time closing the income gap on rich countries at a rate greater than 2 percent per year, even under the best of circumstances. Catch-up—when it happens at all—takes generations.

Rich countries need not be ambivalent or stingy. Certainly, if sudden and rapid economic development were possible and actually materialized, many citizens in wealthy nations would feel jarred, even threatened. And some day, world income distribution will be radically different than it is today, but not anytime soon. Nightmare scenarios and fear of success need never stand in the way of sensible—and generous—development policies.

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