Draft

# The World Bank's 2024 World Development Report, 'The middle-income trap' – Trap Indeed!

David Legge
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## The middle-income trap

The 2024 World Development Report (WDR24) is beautifully presented, easy to read, and its arguments are set out clearly. However, there is an arch duplicity behind the story being told and the report fails to acknowledge or evaluate downsides, contrary arguments, or alternative analytic models.

But first, a brief overview. The report addresses the 'middle-income trap' which refers to the barriers facing middle-income countries in seeking to progress to high-income status.

The report's argument is structured around a model of 'creation, preservation, and destruction':

- the conditions which support productive enterprise, the *creation* of value;
- the forces and practices which help to *preserve* institutions and norms, and which sometimes prevent innovation and renewal (and the replacement of older enterprises and industries by newer more productive enterprises); and
- the conditions which enable the *destruction* of older less productive institutions and norms.

An important part of this story is the role of crisis in destabilising the forces of preservation and in creating new opportunities for creative destruction. The report illustrates the role of crisis and preservation/destruction in relation to decarbonisation where the 'incumbent' fossil fuel energy industry is being destabilised by newer 'entrants', the renewable energy industries.

The recommendations of the report are structured around another simple motif, the 3is: 'investment, infusion, and innovation'.

*Investment* is recommended as the principal economic strategy for low-income countries and as a continuing necessity for middle-income countries. 'Investment' here means the installation of new productive capacity (with associated export earnings); being open to foreign investment is seen as the main pathway for this.

The report envisages two necessary transitions for middle income countries in moving towards high income status. These are first, from *investment as the principal priority to infusion* (accessing modern technology across the domestic economy), and second, from *infusion to innovation* (creating a domestic research and development capability and creating space for innovative enterprise).

Throughout the report the US economy is presented as the model to be emulated in breaking out of the middle-income trap. The progress of middle-income countries towards high-income status is repeatedly measured in relation to the history and current configuration of the US economy.

## Lack of transparency

The report is presented as disinterested expert guidance. There is no acknowledgement of the role of the Bank itself as a powerful actor in global economic governance in support of the Washington Consensus.

There is no acknowledgement of the ways in which the Bank's lending practices and its expert guidance (such as the guidance offered in this report) reflect the interests of its stakeholders, in particular the US which exerts a disproportionate control over the Bank's governance.

This Report shores up the logic of neoliberal globalisation and transnational capitalism. Its recommendations would have the effect of making the global economy more comfortable for US imperialism.

## Downsides, contrary arguments, alternative models

The Report fails to acknowledge or evaluate possible downsides associated with its recommendations. Downsides not considered include:

- ecological degradation associated with the commitment to continuing economic growth (including growth in material throughput) as well as the recommendations for deregulation;
- diverse other harms associated with deregulation (eg junk food), privatisation (eg of care services, education, utilities), and the modern enclosures (extreme intellectual property protection, eg barriers to accessing medicines and vaccines);
- the risk, arising from dependence on foreign investment for new productive capacity, of being assigned a particular role in global value chains, including value chains which are structured to yield unequal exchange (Smith 2016, Patnaik and Patnaik 2021)
- unemployment (and precarious employment) associated with globalisation, the shrinking productive base needed to supply world markets with goods, and the increasing replacement of service jobs with automation;
- inequality associated with the widening gaps between people with jobs versus the unemployed, between people with good jobs versus those with low paid and precarious jobs, and between wage earners and rentiers (associated with the financialisaton of the economy).

The argument presented in this report is constructed around a model of national economies retracing the historical pathways through which the US (and a selection of high-income countries) achieved that status (although not including slavery and colonialism). It is a modern version of Rostow's 'stages of economic growth' model (Rostow 1960); autonomous linear national development.

There is no analysis of the world system forces, norms and dynamics which frame what is possible for middle income countries in terms of contemporary economic development, certainly no mention of imperialism. There is no mention of:

- 900 US military bases distributed around the world and the almost continuous engagement of the US in wars, largely against countries that defy US hegemony;
- the use of financial sanctions, including those which arise from the global status of the US dollar, which have been commonly used to discipline countries that defy the US (Cuba, China, Iran, Russia and Venezuela being the most obvious contemporary instances);

- the role of the US in creating the rules of the 'rules-based order' (in particular through trade and investment agreements) notwithstanding its willingness to breach those rules when it suits.

Kvangraven, Kesar, and Dutt (2024) explore how conventional economics has been shaped by its role in colonial (and imperial) governance. Their analysis, focused on the 2024 Nobel Prize for economics, illustrates why conventional economics must insist on the autonomous linear economic development model and cannot acknowledge the world systems perspective. To do so would accepting the proposition that the economic development of the high income countries has been (and remains) conditional upon the 'development of underdevelopment' in the countries of the Global South (Frank 1970).

## The 'middle-income trap' as inherent in economic transformation or an actively imposed roadblock?

The 'trap' metaphor evokes an unfortunate hazard on the road to development. There is also a hint of victim-blaming in the narrative because, according to the report, the trap can be negotiated if government leaders are willing to take the necessary steps.

It is assumed that the barriers to capital investment in the middle-income countries have been (or are being) overcome but that access to extant technologies and lack of investment in innovation are failures of government policy. Such failures centre around unnecessary caution regarding foreign investment (which brings with it modern technologies) and a reluctance to allow the full play of 'creative destruction' which is a precondition for the flowering of innovation.

The 'trap' is located along a standard Rostovian development trajectory without any analysis of the global forces and dynamics within which middle-income governments seek to navigate their economic development.

The hypothesis that the middle-income trap is a direct consequence of globalisation (transnational capitalism) and imperialism is not considered. It leaves out the geopolitical pressures of powerful HIC governments, vis a vis L&MICs, to accede to governance arrangements which are designed to benefit (Northern-based) transnational corporations and banks.

Unequal power relations and unequal exchange relations are critical features of contemporary imperialism and provide a more than plausible explanation for the roadblocks to development facing low- and middle-income countries. Not innate hazards inherent in the standard sequence of economic development but deliberately placed barriers.

The United Nations declaration of a New International Economic Order (NIEO) in 1974 (UNGA 1974) identified barriers to economic development that were embedded in the structures and norms of global economic governance and articulated a range of reforms to that regime which would facilitate economic development for L&MICs. The promises of the NIEO were smashed by three powerful rich world initiatives: first, the interest rate hike of 1980 and the subsequent debt trap and structural adjustment policies of the IMF closely supported by the Bank; second, the creation of the World Trade Organisation and the negotiation/imposition of the web of trade and investment agreements; and third, the energetic promotion of neoliberalism and its promises of rising tides and trickles down.

The report presents foreign investment as the principal vehicle for 'infusion' (access to, and deployment of, modern technologies). No consideration is given to the downsides of foreign investment (including environmentally degrading, health harmful, and wasteful industries) or to the power of large TNCs to exact conditions for their investments which maximise profit and minimise their contribution to national development, while avoiding taxation and labour and environmental standards.

Globalisation is presented in this report as an unalloyed good; the free movement of goods, services and capital (and skilled workers). There is no consideration of the unfair structuring of supply chains or to the impact of globalisation on economic inequality, decent employment, environmental degradation and global warming.

The structured inequalities of global supply chains arise from the different terms under which different countries, companies, and workers participate in those supply chains. Chief of these are the different rates of pay accorded to low skill assembly line workers in low wage enclaves as compared with the accountants, marketeers, engineers, and sales people in the middle and high income markets where such products are sold. Wide differentials in wage levels across the supply chain are maintained in part by the restrictions on migration; liberalisation does not extend to freedom of movement of people. Other provisions which support unfair exchange include the fierce protection of knowhow, including extreme IP standards; trade agreements which are designed to limit the power of governments to regulate; and tax avoidance

Repeated uses throughout the whole report of the US as the 'frontier' towards which MICs should be striving. But in comparing the per capita income of the US to that of the MICs should the degree to which high incomes and high GDPs in the US are a consequence of unfair exchange should be acknowledged (Smith 2016, Suwandi 2019, Patnaik and Patnaik 2021).

The references to the US as the model to be followed, stands in sharp contrast to the trajectory of the modern Chinese economy which has been actively steered by government and Party, in violation of most of the recommendations of this report (and despite recurring attempts by the US to obstruct its development).

The report does note (carefully and respectfully) the US's retreat from globalisation but makes no reference to the grievances of the US working class which have seen Trump elected and the engine of economic liberalism thrown into reverse.

## A model of global economic governance which overlooks the power of transnational capital

The report depicts a system of global economic governance which is made up largely of 'governments' without regard to the political power of large transnational corporations and private financial institutions. It leaves out the political clout of TNCs in intergovernmental forums, in the corridors of power in the HICs and in negotiations with the governments of L&MICs. It leaves out the roles played by wealth funds, hedge funds, private equity funds, and vulture funds in setting the terms and conditions of investment and debt.

## The growth assumption

Economic growth is assumed, in this report, to be the central objective of national economic policy. Global warming is recognised as a constraint to be negotiated through the move to renewable energy sources and the funding of adaptation. However, there is no consideration of other limits to growth (biodiversity loss, environmental degradation) or the quality of growth.

Throughout the report, economic growth is identified with increasing GDP, notwithstanding the failure of this metric in terms of tracking improvements in social well-being (WHO Council on the Economics of Health for All 2023). Keynes' proposed that the government should pay people to dig holes in the ground and then pay them to fill them up (Keynes 1957 [1936], p 129); digging the holes would be recorded as 'added value', as would filling them in again. Both would be recorded as positive contributions to GDP. Meanwhile, the domestic care work involved in reproducing the workforce and caring for disabled and infirm elderly people is not recorded in the GDP.

The WB prescriptions would give equal weight to the value added in the supply chains that deliver junk food to poor neighbourhoods as to the farmers who deliver green vegetables to the city. In fact, greater value, having regard to the pricing power of the junk food producers and that of the supermarket chains who screw the farmers. The WB prescriptions would give equal weight to the feedlots which fatten beef for the wealthy (notwithstanding the energy and water consumption and the pollution of the local water ways) as to the farmers practising regenerative farming. The WB prescriptions would give equal weight to the manufacture and deployment of armaments as to the building of housing and urban infrastructure for good living.

The recurring advice regarding deregulation in this report suggest that economic policy should be neutral as between these choices.

The Bank's choice to ignore the critiques of growthism (see for example, Hickel, Kallis et al. 2022) is not a consequence of ignorance. It is because to recognise the critique of growthism would weaken the core messages of the report and would not be well-received by the principal shareholders of the Bank.

## Crisis (decarbonisation, financial crisis)

The report explores the industrial transformations involved in decarbonisation as the exemplar case of a crisis which can destabilise incumbents and create new opportunities for entrants. Giving full rein to the creative destruction of capital, institutions, and norms, is seen as a necessary condition for the development of an innovative economy.

This discussion invites a positive appreciation of the role of the IMF in creating financial crises which precipitate 'creative destruction', including privatisation and deregulation.

The report makes it clear that the need for creative destruction encompasses the public sector with references to privatisation of infrastructure and human services and deregulation of environmental constraints and labour protections.

## Conclusions

The 2024 World Development Report (WDR24) offers a policy framework for middle income countries to achieve high income status.

The report is beautifully presented, easy to read, and its arguments are set out clearly. However, there is an arch duplicity behind the story being told and the report fails to acknowledge or evaluate downsides, contrary arguments, or alternative analytic models.

This commentary has demonstrated that far from being a benign disinterested expert guidance, the World Bank is deeply complicit in the systemic barriers to ecologically sustainable, wellbeing focused economic development in low and middle-income countries.

Far from being the disinterested expert, the Bank is an important player in reproducing the barriers to such development.

Public interest social movements globally need to urge political leaders and policy officials in L&MICs to expose and critique the analysis and recommendations presented in the World Development Report 2024.

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