Country Note C

Poverty and Inequality: What Have We Learned from the 1990s?

During the 1990s the number of poor—those living on less than $1 in consumption per day—in developing countries declined from 1.2 billion to 1.1 billion. Globally, the proportion of people in poverty dropped from 28 percent to 21 percent. The global decline masks large variations in regional poverty reduction, which mirror variations in growth performance. Whereas poverty declined rapidly in East and South Asia, it rose in Sub-Saharan Africa and in Eastern Europe and Central Asia. In Latin America and the Caribbean, poverty rates fell marginally in the 1990s, returning to near their 1981 levels. In the Middle East and North Africa, after a significant decline in the 1980s, poverty rates rose slightly in the 1990s (Chen and Ravallion 2004). Even within regions, there are large variations in performance. For example, poverty in the 1990s declined by almost half in Tunisia, increased in Argentina, and declined in Brazil.

How has thinking about poverty evolved in light of experiences, academic research, and country performance in the 1990s?

Up to the 1970s, raising income levels by accelerating growth was seen as the central goal of development policies and the most effective way to reduce large-scale poverty. While inequality was recognized as the important issue in some contexts, such as in Latin America, policies focused on growth, with allowances made for "basic needs": access to water, health, housing, sanitation, and transport. In India, the centrality of growth for reducing poverty had been clear to planners since at least the 1950s and was an explicit objective of successive development plans.[1] In Brazil in the 1960s and early 1970s, the years of the "economic miracle," policies focused explicitly on "growth first, distribution later," as if the two could be determined independently and sequentially. The neglect of the distributional effects of growth was consistent with the perception that poverty was simply too massive to be reduced without significantly augmenting economic resources. Further, the facts matched the empirical regularities first found by Kuznets (1955): as income rose, inequality first increased and then decreased. This pattern was interpreted by many economists (albeit not Kuznets) as reflecting forces that could not be changed by policies or government interventions.

In the 1970s Robert McNamara's "war on poverty" explicitly focused on the well-being of low-income groups. This was the first time in development policy circles that improvements in the well-being of the poor were singled out as a priority, separate from economic growth and separate from improvements in the welfare of the population at large. This subtle shift began a debate: Is poverty reduction the goal or is it a consequence of economic growth? Can the living standards of the poor improve, and poverty decline, independently of progress on the broader development front? Does distribution of resources to the poor retard growth, or accelerate it instead? These questions stimulated renewed analysis of data on income poverty and inequality.[2] More and better data confirmed Kuznets' intuition that the determinants of inequality were more complex than reflected in Kuznets' law. World Bank research in the 1970s and early 1980s, into policies and government interventions that could change income distribution, focused on

cases such as the Republic of Korea's experience of "growth with equity," contrasted with—among others—Brazil's and Mexico's rapid growth but more concentrated income.

In the 1990s the definition and measurement of poverty, and analysis of individual country poverty reduction experiences, received considerable academic, empirical, and policy attention. Attempts were also made to capture the phenomenology of poverty through a variety of concepts to which social scientists—economists and noneconomists—contributed: social capital, pro-poor growth, empowerment, and voicelessness. Studies carried out in countries such as Brazil, China, and India further improved and refined poverty concepts and analysis, as did poverty assessments by the World Bank and other agencies.[3]

These advances have recently led to the concept of pro-poor growth, which has been defined in various ways—strictly in some cases (for example, as growth that not only raises the incomes of the poor, but does so at a rate faster than per capita gross domestic product [GDP] growth, thus implying simultaneous improvements in income distribution) and less strictly in others (for example, as growth that increases the incomes of the poor regardless of whether the distribution of income improves or worsens). While its policy implications are not yet well defined, the concept of pro-poor growth has elicited strong interest from development aid agencies and from political leaders in developing countries facing pressures stemming from democratization.

Overall, four lessons have emerged from the experiences of the 1990s and from conceptual and empirical work over the decade:

- Sustained growth is vital for poverty reduction.
- Poverty is multidimensional.
- Access to social and infrastructure services is key to the poor: it improves both their opportunities and their welfare.
- Consistent with the broadening of the notion of poverty, there is now more focus on the deeper issue of equity—its meaning, and its possible consequences for growth.

These are discussed next.

Sustained Growth Is Central to Poverty Reduction

The 1990s reconfirmed earlier beliefs and the messages of the *World Development Report* of 1990 about the centrality of economic growth for generating employment and other income-earning opportunities for the poor. Unlike in industrialized countries, where poverty is often a result of individuals' inability to seize opportunities because of various social pathologies, poverty in developing countries is fundamentally a matter of lack of opportunities. Countries that have sustained rapid growth for long periods have generated opportunities and achieved rapid poverty reduction. And countries with rapid poverty reduction are those that have sustained rapid growth over long periods (notably China, India, and Vietnam). Conversely, countries with large decreases in income have typically seen increases in poverty (as in former socialist economies, and parts of Africa), and countries with increases in poverty have tended to have low or negative growth (as in Latin America).

Appreciating the difference between *growth episodes* and *sustained growth* is of central importance for understanding the relationship between growth and poverty. Growth episodes are quite frequent, and during growth episodes lasting two, three, or more years, poverty outcomes can vary widely. Sustaining growth for several decades is a much rarer accomplishment (see chapter 1 and Country Note B), and yet it is this accomplishment that has enabled developing economies such as Korea, Singapore, or Taiwan, China to reach the income levels of industrialized countries. The poverty outcomes of sustained growth are much less varied than those resulting from growth episodes. Growth plays a much larger role in poverty reduction during long growth spells than it does during short spells, where changes in measured distribution play a larger role (Kraay 2004).

Translating the goal of pro-poor growth into policies and practical growth strategies remains a tremendous challenge. Short growth episodes can be accompanied by a wide range of distributional outcomes (Ravallion 2003b), and since they have small and often transitory effects on poverty reduction, they provide only limited insights into the impact of sustained growth on poverty or into the types of policies that are appropriate.

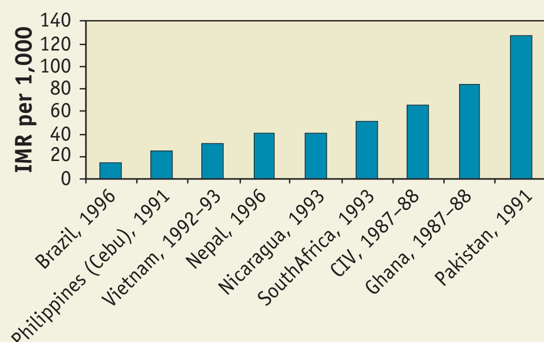
One reason for the interest in concepts of pro-poor growth has been the realization that some patterns of growth (such as expansion of labor-intensive agriculture) could have a larger impact on the poor than do others (such as subsidies for capital-intensive industrialization), and even that some groups could lose in situations in which poverty was declining in aggregate (Kanbur 2001).

A second reason is that the palpable impact of targeted programs on poverty has sometimes led to the impression that they could substitute for economic growth. The 1990s saw some successful targeted programs. Mexico's Progresa/Oportunidades, for example, is a large-scale, well-targeted program that makes transfers conditional on investments in human capital; it deservedly receives a great deal of attention, partly because of its well-designed, independent impact evaluation system. India's food distribution system has helped to increase consumption and alleviate the consequences of poverty in some areas of the country, but as an instrument to reduce national poverty it has generally been ineffectual. China's 8-7 program has succeeded in addressing pockets of poverty within a context of rapid growth, expanding opportunities, and rapidly falling nationwide poverty. Elsewhere, some programs have succeeded in alleviating the impacts of crisis (Indonesia), and in improving community-level services, such as Bangladesh's stipend programs to increase girls' enrollment in secondary school. Such programs should be seen as vehicles either for the inclusion of marginalized groups or for improvements in the access of the poor to infrastructure and social services. While they play a very important role, they cannot substitute for growth in achieving rapid and significant reductions in the incidence of poverty. There is no known example of rapid, sustained, and significant reductions in poverty in the absence of sustained economic growth. That is, while distributive programs are an important component of growth strategies, to ensure the sharing of the benefits of growth, they are no substitute for growth for the purpose of rapid and significant reduction in large-scale poverty.

In recent years, development agencies' focus on the poor, when analyzing poverty or formulating programs for poverty alleviation, has led them to ignore income gains above the poverty line. Yet such gains cannot be ignored socially, empirically, theoretically, or politically. Setting poverty reduction as the only goal of economic growth and economic development ignores the value of income gains above the poverty line, for example those to the middle class. Since a poverty line is a social convention that a society adopts reflecting its own conditions, we should expect poverty lines to rise with a country's per capita income.[4] It is not reasonable for Vietnam, Brazil, and the United States to have the same poverty line, nor is it reasonable—current growth rates persisting—for Vietnam in 2010 to retain the poverty line it had in 1980. Thus the impact of growth on poverty reduction should be evaluated using both a low and a high poverty line, often using a measure of poverty that is sensitive to the distribution of income below the poverty line as well.

This discussion raises the question of what should be the upper threshold for poverty. Commonly used poverty lines of $1/day at purchasing power parity (PPP), or even PPP$2/day, can only be justified if human well-being is high at such levels of income. Even at the poverty line of $2/day, however, physical indicators of well-being such as education, nutrition, and mortality all indicate severe deprivation. Figure C.1 shows the mortality rate of the richest fifth of the population in several low- and middle-income countries. It shows that the mortality rates of children in the *richest* fifth of families in those countries are much higher than the mortality rates of the *poorest* fifth in rich indus-

FIGURE C.1
Infant Mortality Rates



Source: Wagstaff 2001.

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trial countries: among the richest fifth of households in countries such as Nepal and Nicaragua, the infant mortality rate is 40 per 1,000, but even among the poorest fifth in Organisation for Economic Co-operation and Development (OECD) countries, the rate is lower than 10 per 1,000. This suggests that the poverty lines currently in use underestimate the amount of poverty in the world and, possibly, the declines in poverty consistent with achieving the Millennium Development Goals (Pritchett 2003).

Poverty is Multidimensional

A key change from *World Development Report 1990* to *World Development Report 2001* was the conceptual expansion of the definition of poverty to include indicators of education and health, risk and vulnerability, and voicelessness and powerlessness. Studies carried out in the 1990s, such as participatory poverty assessments and the *Voices of the Poor* (Narayan et al. 2000) endeavored to capture what poverty means for those who experience it, and rendered it clear that consumption expenditure—the basis for most poverty lines—captures only one aspect of being poor. From this body of work emerged a broader concept of poverty that includes (1) the usual measures of consumption poverty, (2) education and health, (3) risk and vulnerability, and (4) voicelessness and powerlessness. *World Development Report 2001* emphasized the multidimensional nature of the phenomenon of poverty, which has been increasingly emphasized since.

While broadening the definition of poverty is a conceptual step forward, there are no empirical measures of poverty according to this definition, because some of its dimensions are not amenable to measurement. More research is being done, but there are thus far no well-established empirical relationships regarding broadly defined poverty.

That said, the broadening of our understanding of poverty has led to a search for more encompassing indicators, especially in relation to the following.

Education and health indicators. The key role of education and health in well-being and development has been emphasized since economics began. The shift in the 1990s toward a greater recognition of the importance of education and health as development objectives has also led governments to be more realistic and pragmatic in their pursuit of those objectives. These messages are summarized in *WDR 2004* on service delivery.

Risk and vulnerability. A key fact that emerged in the 1990s—both from the expanded availability of data that tracked the same households over time (panel data) and from qualitative work such as *Voices of the Poor*—was the role of risk and vulnerability in explaining poverty in developing countries. In industrialized countries, little of the poverty is transient because social safety nets and higher incomes, and hence higher savings, help to smooth consumption. Poverty in rich countries is best understood as an issue of social marginalization resulting from culture and nurture, restraining individuals' ability to seize opportunities. In developing countries, by contrast, most poverty is transient poverty, responding to the flow of opportunities as individuals fall into or out of poverty. Empirical research on the dynamics of poverty, pioneered by Jalan and Ravallion (1998) in China and followed up by many others (for example Baluch and Hoddinott 2000) has found a high incidence of transitions in and out of measured poverty.[5] In the most extreme case of the volatility

of poverty episodes, in Pakistan more than half of households (55 percent) were poor either in 1986 or five years later in 1991—but only 3 percent were poor in both periods (table C.1).

"Poverty" as an empirical phenomenon hence consists of many individuals and households experiencing an episode of poverty and, especially in some countries, surprisingly few "poor people" who are always below the poverty line. This means that many more households are *vulnerable* to an episode of poverty than are actually poor at any point in time. These insights have encouraged attempts to address risks and vulnerabilities as part of an overall social protection strategy, in preference to an exclusive focus on chronic poverty or on the poorest of the poor.

Voicelessness and powerlessness. Among the shifts in development thinking that have affected attitudes toward poverty reduction, perhaps the most important has been the move away from the view that *the* solution to all ills is a well-designed program implemented by a well-ordered civil service bureaucracy and centrally funded from public resources (Woolcock and Pritchett 2003). That view tends to make "the poor" a distinct category of people who are the passive recipients of development rather than its active agents. Now, centered around themes such as "community based," "community driven," "bottom up," and "participatory" development; "local governance"; "empowerment"; "social capital"; and "inclusion, cohesion, and accountability," there is recognition that key elements of local development practice in poverty reduction cannot be delivered ready made, but must be homegrown or locally grown (Narayan et al. 2000).

TABLE C.1

Surveys Tracking Individuals over Time Show Only a Small Portion of Poverty Is Accounted for by People Who Are Always Poor

		Percentage of the population that is... (by headcount ACE Poverty)		
		Always poor	*Sometimes poor*	*Never poor*
Zimbabwe	1992–96	10.6	59.6	29.8
Pakistan	1986–91	3.0	55.3	41.7
South Africa	1993–98	22.7	31.5	45.8
Russian Federation	1992–93	12.6	30.2	57.2
Ethiopia	1994–97	24.8	30.1	45.1
Côte D'Ivoire	1987–88	25	22	53

Source: Adapted from Baluch and Hoddinott 2000.

ACE. Absolute consumption expenditure.

Work on theory and empirical research that could shape the design of relevant programs and practices is just beginning. There are reasons to be cautious because, while some empirical studies show that programs function better with greater local engagement (Isham et al. 2002; Galasso and Ravallion 2000), it is far from a foregone conclusion that more "local" decision making necessarily increases "voice" in a useful way (see for example Platteau 2004; Bardhan 2002). Much more needs to be known about the design of local decision making that effectively increases voice.

Access to Services by the Poor: Learning from Experience

Economists tend to view poverty in terms of the consumption of private goods, but other social scientists emphasize the importance of public goods as well. This is because public goods can both improve income-earning opportunities (as in the case of access to roads, markets, water, public transport, education, health, rural employment programs) and directly improve welfare (through access to the same)—thus blurring the distinction between growth-enhancing public policies and distributive policies that are implemented through public services.

A broader understanding of poverty thus highlights the importance of access by the poor to goods and services that are typically publicly provided. Shortfalls in the delivery of such publicly provided goods can lead the poor to perceive that poverty has increased, even though survey data based on the consumption of private goods may suggest the opposite (Kanbur 2002).

Delivery of social and infrastructure services was the central theme of *WDR 2004*, which highlighted that the effective provision of services for the poor cannot be delinked from addressing the

root problems of voicelessness and powerlessness. As that report showed, while the provision of public services to the poor and nonpoor alike is a key developmental issue in any developing economy, it is not a straightforward matter, nor is it a matter of resources alone, but one of striking the appropriate incentives for accountability and performance, taking into account the political economy of delivering services.

Though the 1990s started with the conviction that retrenching governments and expanding the private sector would benefit virtually all areas of the economy, it is now seen that these expectations were unrealistic, and that government has a key role to play in at least three areas: education, health, and infrastructure. Further, it is increasingly seen that *how* to organize these services so that they are effective and reach the poor is the key question.

Answering this question will require a better understanding of the reasons behind failures and successes. The developing world is littered with dysfunctional services—schools with no books or no teachers, or teachers who are absent; clinics with no drugs, without functional equipment, with staff that does not attend or provides low-quality care; and water services that operate only sporadically. At the same time there are services that do work well.

As *WDR 2004* emphasized, the effective provision of services depends on relationships of accountability from the providers of services to citizens, politicians, and policy makers. Related to this, the Shanghai Conference of May 2004 on Scaling Up Poverty Reduction, in its attempt to clarify the reasons for success, produced four key messages:[6]

(1) *Get the economics right*—and get the politics behind the economics right. Poverty reduction depends on growth, which in turn needs sustained political support for implementation of growth-promoting policies and institutions.

(2) *Get the focus on clients right—and keep the focus on clients.* One message relevant across different types of activities was that without a focus on clients, even the best intentioned efforts can go astray and break down in the field.

(3) *Get the implementation right*—the devil is in the details. There is no single recipe for a successful education project or health project: implementation must be adapted to the circumstances.

(4) *Get the support for innovation right—and back the right leadership and management.* "Scaling up" is not simply a matter of more resources but rather of support for innovations that lead to better ways of doing things, that are tailored to circumstances and can be scaled up once they have been shown to be successful. This requires a rigorous means of separating successes from failures, to scale up the former and shut down the latter.

It Is Important to Clarify the Causes and Consequences of Inequality

Rising inequality in some industrialized and developing countries has brought inequality to the fore of policy discussions. Whether inequality should be a matter of public policy, and how to address it, depends on the underlying economic, social, and political forces causing inequality and their relationship to social equity. This is not straightforward, however. Not only is the relationship between inequality and other key economic variables such as growth, or poverty reduction, nonlinear, but its sign probably changes over time (Timmer and Timmer 2004).

Some evidence is emerging, for example, thus far at the microeconomic level more than in the aggregate, that inequality can negatively affect the functioning of institutions, the efficiency of resource allocation, and collective decision-making processes, leading to a negative impact on growth (Acemoglu, Johnson, and Robinson 2001; Aghion 1998).

The interpretation of narrow indicators of income inequality is not straightforward, however. Income inequality is not a good indicator of opportunities for the poor, and its use as a focus of analysis may miss—just as narrow definitions of poverty did—key issues of the reality and social perception of fairness, opportunity, legitimacy, and equity (box C3.1). *WDR 2006* will take up the issues of equity and development and explore them in depth.

This section outlines six reasons why inequality has become such a visible issue and the importance of conceptual clarity in interpreting its significance.

First, growth-oriented reforms have winners and losers; and there is an inclination to believe that the losers are the poor, that their losses constitute a severe loss of welfare and an obstacle to reforms, and that if the poor could be compensated for their losses, political support for reform would be greater. Therefore, the reforms of the 1990s inevitably raised the issue of the distribution of gains and costs of reforms, and how they affect income distribution. Over the 1990s, however, as it became clear that the poor are vulnerable continuously, not only during episodes of reform, the concern of policy makers began to evolve away from episodic forms of compensation toward providing more permanent forms of social protection. Meanwhile, studies have also suggested that it may be naïve to believe that mitigating the impacts on the poor will reduce the opposition to reform. Research by Graham and Pettinato (2002) indicates, for instance, that people who have benefited from reforms are as likely to report themselves opposed to reform as people whose incomes have stagnated or fallen. The formation of attitudes toward reforms is complex, and clearly needs further research.

Second, in some transition countries such as China or the former Soviet Union, inequality has increased significantly. A view has emerged that inequality is on the agenda because the resentment generated by higher inequality is a powerful political factor and creates social pressures that slow reforms and create uncertainty about policy continuity. Resentment about rising inequality needs to be disentangled, however, from the perception that the *process* by which fortunes were accumulated was *unfair.* Perceptions of process and procedural fairness are important influences on an individual's attitudes toward outcomes, and there is no simple association between inequality outcomes and perceptions of the fairness of those outcomes—perceptions that go to much deeper issues of equity. In Sri Lanka, for example, there was widespread resentment at the politicization of civil service employment, because the process for allocating civil service jobs was perceived as unfair. The key issue was less whether civil servants were overpaid than whether the opportunities to access those jobs were legitimate (box C.1). Just as important as the inequality in outcomes is the perception of the fairness of the process that generates the outcomes. This implies that examining increases in income inequality alone, without considering the equity of the process behind the increase, will not capture the true meaning of a rise in inequality and its policy consequences.

Third, it is often asserted that inequality is increasingly on the international agenda because "global" inequalities are rising. Changes in inequality are not a unique feature of the 1990s; Bourguignon and Morrison (2002) suggest that inequality rose steadily from 1880 to 1980 and stopped rising in the 1980s and 1990s (see figure 1.4 in chapter 1). Yet the issue is complex empirically, because much depends on what estimates of inequality are used and how the data are weighted: whether by country, to estimate the cross-national distribution of income; or by population, to estimate the global personal distribution of income; or by using national accounts or household data, to estimate the growth of income. This has engendered debates on the extent of cross-national inequality and the reduction in global poverty, between Bhalla (2002) and Sala-i-Martin (2003) on the one hand and Milanovic (2004) on the other; see also exchanges in *The Economist* (2004). A recent review by Bourguignon (2004a) shows that even using the same data, different measures of inequality can show falling or rising inequality.

Fourth, measures of inequality fail to capture the significance of underlying economic and poverty conditions. For instance, Ethiopia is a relatively unequal country in which the income of the richest 10 percent of the population is 10 times that of the poorest 10 percent. Should inequality be the primary policy issue in Ethiopia, or should the country focus on generating higher average income? Currently even "the rich" in Ethiopia (except for perhaps the very few) have incomes and indicators of physical well-being well below those

BOX C.1

Perceptions of Fairness in Allocating Opportunity Are Central (Case Study: Sri Lanka)

Sri Lanka's Presidential Commission on Youth was appointed in late 1989 to examine the causes of youth discontent and unrest that led to the Marxist rebellion of 1987–89. The Commission's report highlights that meritocratic processes are critical for maintaining social and political stability. The Commission reported a strong consensus within the country that politicization and abuse of power and injustice were the main causes of youth unrest in Sri Lanka. The Commission felt that the politicization of employment, through the "chit system" (the practice of receiving a letter from one's Member of Parliament in order to find public sector employment), was deemed by youth as incompatible with the basic norms of fairness, equity, and merit. This was based on the representations made by civil society before the Commission suggesting an alarming degree of public dissatisfaction in this sphere of recruitment to the public service. Hence, the Commission stated that the 1972 Constitution, which removed the power of appointment vested in the Public Service Commission and brought such appointments within the purview of the Cabinet of Ministers, triggered a politicization process that had far-reaching social repercussions in a country where the public sector accounts for the bulk of formal employment.

Source: Report of the Presidential Commission on Youth, 1990 (as cited in "Sri Lanka: Recapturing Missed Opportunities," World Bank 2000).

of "the poor" in industrial countries, and per capita income in Ethiopia is *50 times* lower than that in the U.S.

Fifth, while rising inequality is sometimes equated with rising poverty, the poverty impact of changes in inequality is not self-evident but depends on the causal interpretation of events. Policies that improve both the growth and the distribution of income are "win-win," but even policies that worsen the distribution of income can be "win" policies for improvement in poverty if their effects on growth are large enough.

As detailed in Bourguignon (2004b) there is a poverty-growth-inequality triangle, and income poverty, income distribution, and changes in mean income are linked by an "arithmetic identity"—which, however, alone does not reveal the underlying causal forces, including policies, that drive both growth and its distribution. For example, in China, as an arithmetic matter, the worsening inequality in the 1990s partially offset the rate of growth of mean income, so that the growth-elasticity of poverty declined. Poverty did not worsen, but the rate of poverty reduction was slower than it would have been if inequality had remained constant. With an equal society and no growth there was very little poverty reduction. With rapid growth there has been a massive reduction in poverty *and* an increase in inequality. From this it could be deduced that poverty has fallen "in spite of" increasing inequality. However, understanding the impact of China's policies makes it important to differentiate "constructive" inequality (which provides the incentives needed to move resources to their most efficient use) from "destructive" inequality (which generates envy and socially unproductive distribution) (Timmer and Timmer 2004). Thus it may be more causally correct to say that poverty in China went down *because* inequality was allowed to go up. This would be the case if the policy changes that led to a rapid increase in average incomes needed to allow inequality to rise in order to provide incentives for investment and innovation. Discussion at an international meeting in 1987 with Chinese, Korean, and Indian economic policy makers illustrates this point:

> After the other delegations [from India, Korea] presented their experiences in managing a market economy, the Chinese Vice Minister presented an outline of the Chinese reform program. At the end of this presentation, Manmohan Singh, in his usual gentle but forceful tone, asked: "Would not what you are trying to do result in greater inequality in China?" To that the Vice Minister replied, with firm conviction: "We would certainly hope so!"
>
> —Edwin Lim, World Bank (2005a)

Vietnam has seen the same combination of rising inequality and spectacularly declining poverty as China. Vietnam lifted a third of its population out of poverty between 1993 and 2002—achieving what may be the greatest reduction in poverty in a single decade in the history of mankind. Vietnam confirms the conventional wisdom reflected in *World Development Report 1990*: poverty reduction was rapid because it began when poverty was high, incomes were equal, and growth was intensive in unskilled labor. Inequality in consumption expenditures rose modestly over this period: the Gini coefficient was .34 in 1993, and .37 in 2002.

Thus, while it is analytically appropriate to say that "if the growth of consumption expenditures had not changed and if inequality had not increased, poverty reduction would have been more rapid," this arithmetic fact is not dictated by causality in the sense that a feasible (economically, administratively, and politically) policy that would have accomplished that goal may simply not exist. It is perhaps unlikely that the fastest reductions in poverty in history, such as those in Vietnam in the 1990s (or in Indonesia and China in the 1970s, 1980s, and 1990s) could have been even faster.

Sixth, there is some emerging, though as yet inconclusive, evidence that more equal societies are able to be more efficient: they adopt better policies, provide public goods more efficiently, allocate capital more efficiently, and reduce crime and insecurity. There is evidence from the United States, for example, that appropriately designed social safety nets can improve both distribution and efficiency (Blank 2002). The new view (discussed in chapter 1) is that by reducing poverty countries can improve the functioning of markets and that of institutions in a manner that is both "pro-poor" and "pro-growth"—social policies can increase the opportunities of the poor to invest and hence can raise both equity and growth.

This is an enormous shift from the view, prevailing until the late 1970s, that concentrating income among the rich increases savings (because the rich have a lower propensity to spend), and hence capital accumulation and hence growth, so that more inequality is good for growth. That view has an element of truth but it ignores some key issues that are now back on the theoretical and empirical agenda (see for example Aghion 1998; Banerjee and Duflo 2003): that inequality can lead to underinvestment by the poor, and that unequal income distributions tend to encourage the persistence of poor policies and the protection of rents.

Bourguignon (2004b) reviews theoretical ways in which more equal income distribution could raise growth, but finds that the "available aggregate evidence is inconclusive." The scenarios and policies in which improved equity and growth are complementary are increasingly on the table.[7]

Notes

1. http://planningcommission.nic.in/plans/planrel/fiveyr/welcome.html; Bhagwati and Srinivasan (2002).
2. The early focus was on inequality because few countries (with the prominent exception of India) had well-defined poverty lines, or systematic measurements of poverty. By many standard measures of poverty, growth, inequality, and poverty are arithmetically linked, but the research was not explicitly about absolute measures of poverty.
3. The *World Development Reports* of 1990 and of 2000–01 benchmark the evolution of thinking about poverty over the decade. More recent sources of insights are WDR 2004 on *Making Services Work for the Poor* and the Global Learning Process on Scaling up Poverty Reduction, which culminated in the Shanghai Conference of May 2004. Both examine modes of improving services to low-income groups that were developed mostly during the 1990s.
4. Any poverty line is a social convention. There is no right or wrong choice, and no technocratic standard,

for establishing a poverty line, but only ways to make comparisons consistently across households, regions, and over time for a given poverty line. For international comparisons the World Bank has conventionally used a "one dollar a day" poverty line, derived from the official poverty lines prevailing in some of the poorest countries in the early 1990s, and "two dollars a day" as another standard for the poverty line. Each country usually uses its own poverty line, and in some countries the poverty line is defined in relation to average incomes and hence automatically evolves with changes in average incomes. On the technical complexities of setting poverty lines, see Ravallion (1994) and Pradhan et al. (2001).

5. *Measured* is a very important caveat. Suryahadi et al. (1999) and Luttmer (2001) and others have demonstrated that measurement error in income or consumption expenditures can account for a substantial fraction of these measured transitions.
6. The global learning process that led up to this conference emphasized hearing directly from practitioners from the South. It produced more than 100 case studies of projects in all regions of the world in areas from education to health to community development to targeted programs, and sponsored field visits across projects to promote South-South learning.
7. These will be addressed in *World Development Report 2006* on equity.