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## **POVERTY AND DISTRIBUTION: TWENTY YEARS AGO AND NOW**

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# Poverty and Distribution: Twenty Years Ago and Now

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## Abstract

This paper adopts the “Rip Van Winkle” stratagem, of asking what differences would be noticed, in the domain of poverty and distribution, by someone who fell asleep in 1987 (the year I published my paper on poverty in the IMF Staff Papers, and woke up only in 2007 (the year I visited the IMF to work on the present paper). I highlight, somewhat idiosyncratically, ten such differences under three broad headings: Facts and Empirics, Concepts and Theory, and Policies and Interventions.

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## 1. Introduction

In 1987 the IMF Staff Papers published my paper ‘The Measurement and Alleviation of Poverty: With an Application to the Impact of Macroeconomic Adjustment.’ This paper, which was written in 1985 during a visit to the International Monetary Fund as Visiting Scholar, spoke to the key analytical and policy issues of the day as I saw them at that time. The present paper, drafted during a return visit to the Fiscal Affairs Department of the Fund in 2007, highlights what has happened in the past two decades in the poverty and distribution discourse—analytical and policy oriented. There is no attempt to be comprehensive. Rather, this somewhat idiosyncratic take on the literature of the past twenty years is offered as a way of sparking a discussion on where we stand and where we need to go in the future.

The mid 1980s represented the culmination of fifteen years of intensive discussion on the analytical and philosophical aspects of poverty and inequality conceptualization and measurement. Publications by Tony Atkinson (1970) and Amartya Sen (1973, 1976) ignited a technical literature on inequality and poverty indices which overlapped with and complemented economists’ engagement with an emerging philosophical literature on inequality and distribution. Kenneth Arrow (1973) formulated Rawls (1971) in terms that economists could relate to, and Nozick’s (1974) counter also made it to economists’ reading lists. In poverty measurement, the paper by Foster, Greer and Thorbecke (1984) introduced a poverty index (the FGT measure) which has become the workhorse of empirical work because of the intuitive way in which it captures differing degrees of poverty aversion, and because it is additively decomposable--thereby allowing an easy and intuitive accounting disaggregation of national poverty into policy salient components. My 1987 paper, Kanbur (1987), used these decomposability properties to analyze the possible effects of expenditure switching policies on poverty, while Besley and Kanbur (1988) analyzed the targeting of food subsidies to minimize the FGT poverty index, drawing on a literature that went back to Akerlof (1978). More generally, the public economics literature on taxation and expenditure advanced rapidly on the theoretical front, with a whole range of results being derived on distributionally sensitive fiscal policies.<sup>2</sup>

This paper takes up the story in the mid-1980s and brings it up to date. I consider developments in three categories: Facts and Empirics, Concepts and Theory, and Policies and Interventions. While I will list issues that I think came to the fore particularly in the past twenty years, I recognize of course that there were antecedents in an earlier period. Moreover, a clean categorization into empirics, theory and policy is also not possible, and some issues cover all three to varying degrees. Finally, my focus is on new issues—some of the old issues still remain important but I will not be discussing them in great detail.

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<sup>2</sup> See for example, Atkinson and Stiglitz (1980), Newbery and Stern (1987).

## 2. Facts and Empirics

### 2.1 Just More Facts

A key difference between now and twenty years ago is quite simply the availability of more distributional data sets—for more countries, more time periods, and more dimensions.<sup>3</sup> The World Bank’s Living Standards Measurement Survey (LSMS) website lists over 60 surveys for over 30 countries.<sup>4</sup> *All* of these surveys are after 1985. There are a host of surveys for the transition economies of Europe and Central Asia dating from the 1990s, as these countries joined the market economic system. In Latin America and the Caribbean, where wage and income surveys used to dominate, and still dominate, expenditure surveys are increasingly being conducted—the LSMS website lists Ecuador (1994, 1995, 1998), Guatemala (2000), Guyana (1992/03), Jamaica (annual 1988-2000), Nicaragua (1993, 1998/99, 2001), Panama (1997, 2003), and Peru (1985, 1991, 1994), and there are other more recent surveys not listed.

Another major source of information that has expanded dramatically in the last twenty years comes from the Demographic and Health Surveys (DHS). The website<sup>5</sup> lists over 175 surveys, almost all from the mid 1980s onwards, most from the 1990s onwards. While DHS does not collect information on household income and expenditure, it does collect information on assets, which some analysts have used to cross-correlate with health and nutrition outcomes.<sup>6</sup> In any event, the availability of health and nutrition data has further spurred work on these dimensions of poverty and human development. In particular, the new data has helped to clarify and quantify the prevalence and spread of HIV/AIDS, an issue that was hardly on the policy agenda in developing countries in the mid 1980s.

Perhaps the most remarkable transformation is for Africa. When I was working on my IMF Staff Papers article in 1985, *no* modern household income expenditure surveys were available for African countries. Now we have surveys for the following countries listed on the LSMS website: Cote d’Ivoire (1985, 1986, 1987, 1988), Ghana (1987/88, 1988/89, 1991/92, 1998/99), Malawi (2004/05), South Africa (1993), Tanzania (1993). But these are just the surveys on this website, selected and made available for public use through the LSMS project. There are many other surveys-- for more countries, and more recent surveys. The Africa Household Survey Databank, which includes surveys from DHS, lists 406 surveys.<sup>7</sup> These surveys cover most countries in sub-Saharan Africa. Most are from the 1990s onwards.

Consider now the two largest countries, India and China. For India, the National Sample Survey’s “thick round” every five years has provided and continues to provide

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<sup>3</sup> There are many compilations of data sources, see for example [http://chd.ucla.edu/dev\\_data/index.html](http://chd.ucla.edu/dev_data/index.html), or <http://www.wider.unu.edu/wiid/wiid.htm>

<sup>4</sup> <http://www.worldbank.org/LSMS/guide/select.html>

<sup>5</sup> [http://www.measuredhs.com/aboutsurveys/search/search\\_survey\\_main.cfm?SrvyTp=type&listtypes=1](http://www.measuredhs.com/aboutsurveys/search/search_survey_main.cfm?SrvyTp=type&listtypes=1)

<sup>6</sup> See, for example, Filmer and Pritchett (1999).

<sup>7</sup> <http://www4.worldbank.org/afr/poverty/databank/default.cfm>

distributional data that are central to the policy and dialogue in that country. The controversy on data for the 1990s, especially in ascertaining the impact of economic liberalization, shows the ongoing use that is made by researchers and policy makers of the time series data that are available for the country.<sup>8</sup> The emergence of China from its economic isolation in the 1980s also meant greater availability of distributional (and other) data for China. The data availability increased significantly in the 1990s, feeding into an intensive debate on growing inequality in China.<sup>9</sup>

Greater availability of household surveys has allowed an application of techniques that had been developed prior to the mid-1980s, but which awaited appropriate micro-level data for implementation. A prominent example of this is incidence analysis of public expenditure, or distributional analysis of price and subsidy reform. Such application is now routine, even to some extent in the IMF.<sup>10</sup> It would not have been possible prior to the mid-1980s. Time series of distributional data for a large number of countries have permitted intertemporal analysis of the evolution of inequality and poverty, and have fuelled a debate on globalization, growth and distribution. This debate will be taken up presently. However, for a smaller but still significant number of countries household panel data are now available. Baulch (2004)<sup>11</sup> provides the following inventory of nationally representative panels: Cote D'Ivoire, Egypt, Hungary, India, Indonesia, Hungary, Malaysia, Nicaragua, Philippines, Poland, Russia, Uganda, and Vietnam. Even this list is not complete, since countries like Ghana should be added. Subnational panel data sets are available for countries like Bangladesh, China, Ethiopia, Madagascar, Pakistan, Peru and South Africa. All of these panels bar one, India, are from the mid 1980s onwards.<sup>12</sup> Along with these new panel data has come an interest in analysis and policy implications of the findings of these panels, especially the high degree of risk and vulnerability faced by the poor in developing and transition economies.

## 2.2 Trends in Poverty and Inequality

From the vantage point of the debates of the mid 1980s, two sets of facts seemed to be important. First, a group of countries in East Asia had managed to achieve growth with equity, leading to dramatic declines in poverty. This seemed to suggest that one could have increasing per capita income with declining or constant inequality, contrary to the Kuznets (1955) hypothesis that inequality would first increase and then decrease only after some time as per capita incomes increased. Second, in the absence of time series data the testing of this hypothesis in the 1970s and 1980s relied on cross-country econometric regressions, with all the problems that those entail. Counter to the estimates of Ahluwalia (1976), work in the 1980s by Anand and Kanbur (1993a, 1993b) argued that there was no “Kuznets curve” to be found in the cross-country data. This became the conventional wisdom, and has been found to be largely corroborated by the literature of the 1990s and the 2000s,

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<sup>8</sup> See Deaton and Kozel (2005)

<sup>9</sup> See, for example, Chen and Ravallion (2007) and Kanbur and Zhang (2005)

<sup>10</sup> Coady, Dorosh and Minten (2007)

<sup>11</sup> [http://lnweb18.worldbank.org/ESSD/sdvext.nsf/68ByDocName/Baulch/\\$FILE/Baulch+Paper.pdf](http://lnweb18.worldbank.org/ESSD/sdvext.nsf/68ByDocName/Baulch/$FILE/Baulch+Paper.pdf)

<sup>12</sup> In the case of India, the panel data sets date from before the mid-1980s. India is a country where, despite excellent production of nationally representative snapshot surveys, the production of panel data sets seems to have virtually disappeared in the 1990s. Efforts are now being made to revive panel data collection in India.

using more, and more recent, distributional data, as from the compilation by Deininger and Squire (1996, 1998). The result was interpreted by some as suggesting that there was no systematic relationship between growth and inequality change, so policy makers should go all out for growth, since inequality would be expected to remain constant and thus poverty would decline.<sup>13</sup> An alternative interpretation would simply have been to caution against the use of cross-country regression analysis to draw time series conclusions for any one country.

From the vantage point of today, however, the past twenty years seem to present the following stylized fact: Poverty has reduced where there has been growth; where there has been fast growth, inequality has increased, but not by so much as to counter the effects of growth on poverty reduction. So, although cross-country regression still continue to find no simple relationship between inequality change and growth, the experience of a large number of countries—for example, India, China, Viet Nam, Bangladesh, Ghana, South Africa, Mexico, Chile, etc—points to growth/inequality-increase/poverty-decrease nexus.<sup>14</sup> Unlike the East Asia story that informed the debates of the mid-1980s, no country seems to have managed to achieve high growth without increases in inequality. Indeed, some of the increases in inequality have been quite sharp, raising distributional concerns among policy makers and civil society, despite the reductions in poverty that have accompanied the high growth rates.

Rising inequality dissipates the impact of growth on poverty. A given growth rate applied to a high level of inequality will lead to a lower level of poverty decrease than the same growth rate applied to a lower level of inequality, even if inequality does not change with growth. In this sense inequality is bad for poverty reduction.<sup>15</sup> But might rising inequality impede growth itself in future periods? On the face of it, if increased inequality and high growth rates have persisted for more than a decade for a significant number of countries, almost two decades or more for some countries, then it does seem that rising and high inequality may not be an impediment to growth. But the time series may not be long enough to draw confident conclusions. The literature has once again had to fall back on cross country regressions, this time of growth as a dependent variable and inequality as an independent explanatory variable. The outcome is no more conclusive than the earlier Kuznets curve literature. So far as income inequality is concerned, it seems to be difficult to establish a causal connection from it to growth. However, it does seem as though the evidence is stronger for structural inequalities like those to do with gender or caste. Addressing these can lead to more efficiency and higher growth.<sup>16</sup>

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<sup>13</sup> Dollar and Kraay (2002)

<sup>14</sup> See references in Kanbur (2007).

<sup>15</sup> Ravallion (2008)

<sup>16</sup> The World Bank's recent overview in the World Development Report, World Bank (2005, p103) confirms this agnosticism: "Most studies that look at the cross-sectional relationship between inequality and subsequent growth over a relatively long period in cross-country data, and especially those that use measures of asset inequality, find a negative relationship, often significant. By contrast, most studies that look at the relationship between changes in inequality and growth, including several studies that do analysis at the sub-national level within the same country, find a positive effect....Most important among the many reasons for both cross-sectional and the time series evidence to be misleading are the following: the possibility of a non-linear relationship between inequality and growth, problems with comparability of cross-country data, and the

## 2.3 Micro and Macro Evaluation

The 1980s saw the peak, and then the decline, in two methods of distributionally oriented evaluation of government interventions. The first, on project evaluation and shadow prices, dated back to the developments in public economics of the late 1960s and the 1970s. But by the mid 1980s intellectual interest had waned, and operational interest never seemed to have reached critical mass.<sup>17</sup> The second, on evaluation of macro policies, and their distributional consequences in particular, with (computable) general equilibrium models also had its day in the 1980s and the early 1990s and then faded.<sup>18</sup>

One empirical strategy which was prevalent in the mid 1980s and before can be argued to have been used even more intensively in the period after. This is the use of cross-country regressions to test hypotheses about the impact of interventions and policies on growth and distributional outcomes. Cross-country regularities were brought to the fore in the 1960s and the 1970s in the work of authors like Adelman, Morris, Chenery and Syrquin. I have already referred to the Kuznets curve literature of the 1970s and 1980s. But the availability of expanded data sets for more countries, the macroeconomic focus of the “structural adjustment period” of the 1980s and the 1990s, as well as the revival of growth theory in the 1990s, lent itself to an explosion of econometric analysis with cross-country data. Indeed, cross-country regressions have in many ways been at the core of the development debates of the past two decades.

This literature has not been without its controversies, of course. Much attention has focused on the impact of “globalization” on growth, inequality and poverty. Many of the technical issues highlighted in the Kuznets literature of the earlier period are equally present in these debates—most prominent among them, the extent to which inference can be drawn about development processes from cross-section relationships across countries with very different structural conditions. The endogeneity of key explanatory variables, such as trade ratios or tariffs to measure openness, has also been much debated.<sup>19</sup> The

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difficulty of identifying the direction of causality when both variables are likely to influence one another...Despite great attention devoted to the question of a systematic relationship between overall inequality and growth at the country level, the body of evidence remains unconvincing. But there is clearly a strong presumption that reducing a specific inequality would promote better investment.”

<sup>17</sup> As Little and Mirrlees (1991, p 359) noted in their own twenty year retrospective, “A battle raged in the World Bank during the 1970s about whether social prices should be used. Formally, the “social price brigade” won, in that their guidelines on the use of distributional weights were actually incorporated in the *Operational Manual* in 1980, In practice, we believe, they were hardly ever used except in an experimental manner.”

<sup>18</sup> My own attempt at this type of exercise is to be found in Kanbur (1990a). The sheer complexity of these models was perhaps the primary reason for their failure in the analytical and the policy arenas. It was very difficult to explain the reasoning behind the outcomes, which lay somewhere in the interaction of the (sometimes) hundreds of equations and the (crucial) handful of “closure rules”, and the results could be sensitive to the large number of assumed parameter values.

<sup>19</sup> As Rodrik (2005) argues: “Consider an illustration from trade policy. The estimated coefficient on import tariffs in growth regressions run for the contemporary period is typically negative (albeit insignificantly so) and rarely positive. One frequently hears the argument that we can at least draw the conclusion from this fact that import protection cannot be beneficial to growth. But once again this and similar inferences are invalid. A negative partial correlation between growth and import tariffs is not only consistent with protection being growth-enhancing, it is actually an equilibrium consequence of trade protection being used in a socially optimal fashion.”

“institutional quality” variables that have increasingly been used in these regressions are open to similar questions and debate. However, despite the debates, the cross-country regressions approach to evaluate development policies and interventions continues to dominate the current development discourse.

There is however, one empirical strategy which was largely absent in the mid 1980s and before, but which has rapidly gained prominence in the last decade. This strategy takes the “medical drugs testing” approach seriously and implements it for development interventions. The basic problem with the standard econometric approach is the difficulty of controlling for unobserved heterogeneity which may have patterns of correlation that bias the estimated results. The “randomized evaluation” methodology from drugs testing has framed the response of a growing number of development economists, especially in the 2000s. Some have argued, indeed, that this should be at the heart of what organizations like the World Bank do in the development business.<sup>20</sup> The movement has had an impact, in the academic literature but also in the fact that evaluation procedures are much more carefully discussed in project design. This is project evaluation of a type, then, that is very different from the one that rose to prominence in the 1970s and faded in the 1980s—the design of control groups has replaced the estimation of shadow prices. Invariably, of course, there has been a backlash. The very strength of randomized evaluation—namely, the controlling of specific conditions to isolate the impact of the intervention in question, raises questions about the generalizability of the conclusions, particularly for policy purposes. The debate continues, and is one of the live and vital issues in development economics today.<sup>21</sup>

### 3. Concepts and Theory

#### 3.1 Poverty Dynamics and Risk

The greater availability of panel data sets has led to a greater empirical appreciation the general “churning” that takes place around the poverty line. In rural Kwazulu Natal in South Africa, 44% of the population either moved into or out of poverty. The number was 28% in rural Nicaragua, and similar numbers can be found for a range of countries.<sup>22</sup> In countries where panels have been developed for a period of a decade or more, the volatility of household incomes has been well documented.<sup>23</sup>

Leaving to one side the empirical literature that has developed on the basis of these panel data sets, the issues raised by them have led to a new wave of theorizing and conceptualization on poverty in a dynamic and risky setting. The standard snapshot view is by now relatively straightforward. There is a measure of wellbeing, and a threshold below which one designates poverty. Various axioms capture intuitions about aggregation into a single poverty index, and from these are derived families of poverty indices, like that put

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<sup>20</sup> Banerjee and He (2003)

<sup>21</sup> See Kanbur (2006), Rodrik (2008a) for reprises of the debate.

<sup>22</sup> Chronic Poverty Research Centre (2005)

<sup>23</sup> For example, Dercon (2004) for Ethiopia.

forward by Foster, Greer and Thorbecke (1984). But now consider dynamics, or risk. Suppose the individual is in poverty in one period, and out of poverty in the next. How is this individual's poverty to be assessed? One possibility is to compare the individual's present discounted value of wellbeing (consumption, say) to the present discounted value of the poverty line. But this still leaves open the question that an individual not in poverty by this measure is indeed in poverty in one of the two periods. Perhaps the former can be called chronic poverty and the latter transient poverty.<sup>24</sup> An alternative is to classify as chronically poor those who are poor in both periods.<sup>25</sup>

All of the above has led to a lively literature on dynamics and poverty measurement in the 1990s. But there is also risk, and vulnerability, to be added to the measurement mix. What is the risk faced by individuals and households, and how does this vary at different levels of income? Moreover, how is this to be aggregated to provide an overall level of risk for the society as a whole—what weights are to be used? There are empirical issues about estimating the risk from the fairly short runs we have for panels so far (two or three observations for most, half a dozen or so for a small number), but the theoretical literature has developed fast in response to these questions and there are now a range of dynamic and risk encompassing measures of poverty.<sup>26</sup>

An extreme case of the variability caused by risk is mortality. What happens to standard measures of poverty when a poor person dies? All else being held constant, they decrease! This is surely an unacceptable property of our poverty measures, and raises a fundamental question about their axiomatic structure. All of these measures are derived assuming that the population set is unchanged. Dynamics with the same population set can be handled by aggregating each individual over time, but when individuals disappear because of mortality, or new individuals appear because of birth, new axioms are needed to make the disappearance or appearance commensurate with the ongoing presence of individuals. Various methods have been proposed to address this issue,<sup>27</sup> but the basic point is that while the “Sen axioms” of the 1970s served us well in helping to derive operational poverty measures, over the past decade these axioms have increasingly been questioned in the conceptual literature.

### **3.2 Gender and Intrahousehold Inequality**

In the mid-1980s, the systematic incorporation of gender and intrahousehold allocation into the poverty and distribution discourse was just beginning. The work of Sen (1983) introduced the issue of gender inequality within the household and in general during the development process. The 1980s also saw the beginning of theoretical and conceptual work on intrahousehold allocation models and their application to the newly available household survey data sets.

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<sup>24</sup> Jalan and Ravallion (2000)

<sup>25</sup> This perspective is advanced by Chronic Poverty Research Centre (2005).

<sup>26</sup> For example, Ligon and Schechter (2003), Calvo and Dercon (2005), Foster (2007)

<sup>27</sup> See, for example, Kanbur and Mukherjee (2007).

A major data constraint in mapping out the extent and nature of intrahousehold inequality in consumption, commensurate with consumption based measures of overall inequality and poverty, is that we do not have individual level data on consumption. Indeed, it would be difficult to see how this could be done comprehensively, since a significant portion of household consumption (like the house itself) is a public good. In any event information, even for those items like food that are individualized, is collected at the household level. The standard practice is then to divide the monetary measure of total household consumption by the number of household members, and allocate to each individual the per capita household consumption. Sometimes (though not very often in official statistics), household size is adjusted for composition, and for economies of scale. But throughout, in the absence of individual consumption data, the assumption is that there is not real inequality within the household. In a first attempt to measure the effect of ignoring this household inequality, Haddad and Kanbur (1990) used a specially collected data set with individual level food consumption information from the Philippines. They found that overall inequality and poverty could be understated by as much as 30%.

Apart from its impact on measures of inequality and poverty, neglect of intrahousehold inequality also affects policy interventions that try to target individuals within the household such as young children or women. We need a model of intrahousehold allocation as a function, among other things, of overall household resources. It would be fair to say that well into the 1980s the standard “unitary model” ruled the roost. The key theoretical prediction of this model, with implications for empirical testing and for policy, is that of “income pooling”. The household’s consumption pattern, including the pattern of consumption of individuals in that household, depends only on the total budget constraint, not on which individual brings in what amount of resources to the budget constraint. But from the 1980s onwards, and especially in the 1990s, new theoretical models, and new types of econometric testing, began to question systematically the income pooling hypothesis. For example, models of intrahousehold bargaining were developed to highlight the implication that the resources brought to the household by an individual would partly determine how much benefit the individual could draw from the available household consumption.<sup>28</sup> The econometric theory of testing for “collective” as opposed to unitary models using only household level consumption data was developed, and applied. And the impacts of differential sources of household income on observable individual outcomes such as anthropometrics were also tested for and found to be significant.<sup>29</sup> Already by the mid- 1990s, a group of economists working in this area had issued a manifesto arguing that the burden of proof would now be on those who would support the unitary model.<sup>30</sup> Since then the theory and the evidence against the unitary model has continued to grow.

While developed country policy issues have also propelled these conceptual developments, and their empirical testing, development economics issues have played a central role in motivating these analytical developments, which started slowly in the 1980s, accelerated in the 1990s, and have matured in the 2000s.

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<sup>28</sup> Manser and Brown (1980), Bourguignon and Chiappori (1992), Ghosh and Kanbur (2008).

<sup>29</sup> See, for example, Browning and Chiappori (1998), Quisumbing and Maluccio (2003)

<sup>30</sup> Alderman et. al. (1995)

### 3.3 Multidimensionality and Interdisciplinarity

What exactly is poverty? If it is the lack of an adequate level of standard of living, what exactly is this standard of living? In the 1980s the discussion, at least in the international agencies, was dominated by economic concepts and measurement—essentially, the monetary value of goods and services consumed. Sure, there were concerns and methods for addressing (at least some) items of consumption for which there were no market prices (like production of food for home consumption). But the core approach and method was very clearly tied to “money metric utility”.

In the 1990s this sole focus on monetary value of consumption (or income) shifted to a systematic concern with a broader range of items, even while income and consumption retained a central role. Starting in 1990, the UNDP’s Human Development Report introduced the Human Development Index (HDI), which combined income with education and health to produce an overall index for ranking countries. Despite many technical criticisms of the index<sup>31</sup>, it has to be recognized that its introduction changed the terms of the debate. It brought education and health to the forefront as key independent components of assessment, not just as inputs to income enhancement, thereby cementing these dimensions of the “basic needs” approach of the 1970s. Part of the rationale for such broadening was not just to argue that education and health were components of the standard of living that could not be proxied by income (conceptually or empirically). But another part was also that an explicit discussion of education and health also broadened policy focus, to incorporate direct interventions in these sectors, rather than relying solely or primarily on instruments seen to increase incomes. The development of the Aids pandemic, not really foreseen clearly in the 1980s, has also served to bring health goals to the fore. The multidimensionality wrought by the HDI is seen in fuller form in the 8 Millennium Development Goals (MDGs) of the UN system, which were signed on to by world leaders in 2000.

One dimension of the standard of living which has not received as much support and consensus as education and health is “voice”—the extent to which poor people participate in and influence the decisions that affect them. This is not part of the MDGs, for example. There are of course difficulties in conceptualization and in measurement of this, or of “empowerment”, another term which is often used to capture this constellation of concerns. And the causal, instrumental, role of “democracy” and “governance” variables in growth is perhaps even less clear than the role of education and health. However, the importance of these factors in evaluating development outcomes is at least implicitly recognized in the conditionality of many bilateral donors, who put a high weight on the poor having voice and accountability. These are early days, and as the discussion matures, and concepts and measurement are sharpened, no doubt this cluster of issues will take their rightful place in the broadening of the standard of living from narrowly income focused approaches.<sup>32</sup>

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<sup>31</sup>For an early critique, see Kanbur (1990b)

<sup>32</sup>The World Bank’s World Development Report 2001, on Poverty introduced empowerment as a key dimension of the poverty discourse.

Development has of course been the intellectual playground of many social science disciplines. Historically, these have largely gone their separate ways, with their own literatures, journals and conferences. Prior to the mid 1980s, there was some interaction between economics and philosophy on issues of equity and social welfare. However, in the last twenty years the amount of cross-fertilization between the disciplines in the social sciences in the study of development has increased significantly, and a lot of it has been driven by distributional concerns.

At the World Bank and in the donor agencies the hiring of non-economists was initially prompted by the need to assess the social and environmental consequences of infrastructure projects, like population resettlement with dam construction.<sup>33</sup> But from the mid 1980s onwards, and especially from the 1990s, the World Bank's Poverty Assessments were required to have a "qualitative" component that went beyond, and complemented, the standard distributional analysis from a representative household survey.<sup>34</sup> This requirement was replicated in other donors' reports as well. This meant that methods that were particular to anthropology and sociology were now part of reports that were formerly entirely economics oriented, and still continued to be primarily economics oriented.

The push towards multidimensionality has moved alongside, and is related to, the push towards greater interdisciplinarity, or at least multidisciplinary, in the discourse on distribution and poverty. In the mid 1980s the dominant approach in the World Bank and elsewhere in international agencies, was the quantitative-economics one. Since then, there has undoubtedly been a broadening. The juxtaposition of the methods of different disciplines, of household survey analysis combined with econometric analysis on the one hand, with participatory poverty analysis, unstructured interviews, and discourse analysis on the other, has led to a tension in these agencies and in the wider development studies community. Whether these tensions turn out to be creative still remains to be seen, but it is an interaction that was simply not present prior to the mid 1980s.

Kanbur (2003a) characterizes the "qualitative-quantitative" spectrum as being composed of five dimensions: (i) type of information: non-numerical to numerical, (ii) type of population coverage: specific to general, (iii) type of population involvement: active to passive, (iv) type of inference methodology: inductive to deductive, and (v) type of disciplinary framework: broad social science to neo-classical economics. In a subsequent paper, Kanbur and Shaffer (2007b), the divide is characterized in more fundamental epistemological terms, between the empiricist/positivist tradition and the tradition of critical hermeneutics. The latter suggests that tensions will always remain when different disciplines, and their methods, are brought to bear on the common problem of understanding poverty and distributional outcomes.

However, the greater interplay of disciplines and their methods has undoubtedly brought dividends, as shown for example in the compilation of studies in Kanbur and Shaffer (2007a), and in a number of other studies, all of which date from the early part of the 2000s. One example is an assessment of Conditional Cash Transfers (which will be

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<sup>33</sup> Cernea (1988, 1999)

<sup>34</sup> Carvalho and White (1997)

discussed in their own right further in the next section) in Nicaragua and Turkey. The donors required that both quantitative and qualitative methods be used. The results of the evaluation are presented and assessed by Adato (2007). The quantitative part of the assessment followed the best practice of randomized evaluation discussed in the previous section. In Nicaragua, for example, “Out of 42 *comarcas*, 21 were randomly selected into the program, and 21 into the control group. Household and individual level data was collected in 2000, before the intervention began, in both control and treatment localities. Data on the same variables was then collected in the same households in [2002].” The impact of the program was then estimated through the “double difference” method, to control for unobserved differences across communities and over time. For the qualitative component, however, “...field researchers, with B.A. or M.A. degrees in sociology or anthropology, conducted research in two communities each (for a total of six communities in each study) over a period of 4-5 months, moving between them at different intervals, and residing with families in the communities.”

The quantitative analysis established that the programs were having the effects intended. However, the qualitative analysis revealed a number of features which could threaten the sustainability of the program over the long run. The targeting criteria, while performing well on their own terms, did not resonate with the population on the ground, creating tensions in the community among those receiving the transfer and those who could not understand why they were excluded. Also, having understood that transfers depended on their child falling below a certain nutritional assessment, the qualitative analysis indicated that some mothers were deliberately underfeeding to satisfy program requirements—fortunately, this led to a program redesign.

There are thus a growing number of examples of the benefits of interdisciplinarity in the analysis of poverty and distribution. These examples were simply not there when I wrote my paper for the IMF Staff papers in the mid-1980s. Despite the tensions, this trend is set to continue.

#### **4. Policies and Interventions**

In all of the examples considered above, for theory and empirics, the case can of course be made that I am not pointing to anything that is absolutely new since the mid 1980s. All of them—intrahousehold inequality, evolution of inequality, interdisciplinarity, etc—have antecedents in the previous period. This is certainly true, and all I am arguing is a tendency and a pattern, rather than an absolute break in the mid-1980s. The difficulty of delineating a sharp break is most acute in the case of policy debates and interventions, since most debates of this type are generic and eternal in nature, and most interventions have been discussed if not actually implemented at some time in the past. Trade policy, redistribution and transfers, expenditure on health and education, etc, all of these are under intense debate now, but they have surely been discussed before. However, that said, I believe that the four issues that I have chosen to highlight in this section do deserve their characterization as being somewhat new to the scene, at least in comparison to the vantage point of the mid-1980s.

## 4.1 Conditional Cash Transfers

Conditional Cash Transfers (CCTs) are no exception to the rule that there is nothing really new under the sun. They existed before the mid 1980s, and public works schemes for famine relief are to be found in ancient times. But it would be fair to say that there has been an explosion of these schemes, and they have risen to prominence in the policy and analytical debate, only in the last decade or so. The Employment Guarantee Scheme of Maharashtra State in India is long standing, but in recent years programs that make transfers conditional on school attendance of children and other requirements have been introduced in Bangladesh Mexico, Brazil, Nicaragua, Turkey, and a host of African countries as well.<sup>35</sup> Indeed, in 2004 a new government was elected in India with a commitment to a national employment guarantee in rural areas. This program is now being implemented.

This explosion of CCTs is quite remarkable. What explains the sudden interest in them, and what are the lessons that have been learnt from their operation so far? The answer to the first part of the question is two fold—growing inequality and positive evaluation results. CCTs can be seen as a response to the rising inequality that has accompanied growth in many countries. Even where the growth has reduced poverty despite rising inequality, as discussed in a previous section distributional concerns have persisted and grown. Part of the answer for this is that the increasing inequality may be picking up ground level realities that are missed by official statistics. For example, in many countries poverty measures that emphasize the depth of poverty are falling less fast or even rising. In many more countries the overall poverty decline is an aggregation of significant numbers of winners and losers. While the former outnumber the latter, and their climb out of poverty is to be celebrated, the plight of those who have become poor or whose poverty has increased cannot be ignored.<sup>36</sup> All of these suggest a role for redistributive policy to target the losers from economic reform and economic crisis. Further, conditioning the transfer on behavior can help to induce changes such as keeping children in school or increasing visits to health centers. Government after government has looked to CCTs to address the issue of increasing inequality in the context of economic reform and liberalization.

In addition to the felt need is the simple fact that evaluations of these programs have shown positive results. A key role in this was played by the evaluation of the Mexico's Progres-Oportunidades program. The designers of the program incorporated evaluation using appropriate control groups right from the start. To quote Levy (2006, p 37): "Between October 1997 and November 1999, a total of 24,000 families in 506 localities were interviewed regularly. Of those localities, 320 that were incorporated in the program as of October 1997 were in the initial treatment group and 186 were in the control group, until they were incorporated in the program in late 1999." It was argued that the assignment to treatment and control was effectively random, so that randomized evaluation techniques could be implemented. The evaluation continued in similar fashion as the program was

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<sup>35</sup> See for example Kakwani, Soares and Son (2005), Das, Do and Ozler (2004), Levy (2006).

<sup>36</sup> These, and other dimensions of the disconnect between official statistics and perceptions and reality on the ground are discussed in Kanbur (2007).

scaled up. The positive results that emerged out of the evaluation were accepted by the technical community because of the methods used,<sup>37</sup> and this helped greatly in the spread of the CCT message from country to country.

Thus CCTs are now being implemented in a large number of countries. By and large the evaluations are positive.<sup>38</sup> What are the lessons being learned? We have already discussed in the previous section the sometimes surprising findings of qualitative analysis as compared to quantitative ones. The detail of the design matters, and for long term sustainability these issues have to be considered. Institutional details, monitoring and accountability of officials, is important as always. Generic issues that arise with achieving the objectives of the program include low participation and fungibility.<sup>39</sup> Tradeoffs between coverage and leakage, and between the specific objectives of the program and what people would like to spend the cash on, are ever present, must be handled in the design, and cannot be wished away.

## 4.2 Governance and Institutions

A constellation of issues, different yet related, have come to the fore in the last twenty years in a way that was not present in the mid 1980s. These are, broadly speaking, to do with the role of institutions in the development process. While applicable to the development process in general, they have particular resonance for poverty and distributional outcomes. If growth itself depends on the quality of institutions, then poverty reduction also depends upon it. If, further, the distribution of gains from growth also depends on the nature of institutions, the importance of these factors is further magnified. The literature has had both macro and micro strands.

The analysis of these factors was given a boost by the publication of comparable cross-country governance indicators beginning in the mid and late 1990s,<sup>40</sup> and this fed into and played a central part in the blossoming of the cross-country growth regressions literature that has already been discussed in the previous section. It was and is one half of the “institutions versus geography” debate. From the policy perspective, however, the important question is—even if we do find a relationship between the quality of institutions in a general sense, what specifically can we do about it? As Rodrik (2008b) says:

“Desirable institutions provide security of property rights, enforce contracts, stimulate entrepreneurship, foster integration in the world economy, maintain macroeconomic stability, manage risk-taking by financial intermediaries, supply social insurance and safety nets, and enhance voice and accountability. But as the variety of institutional forms that prevail in the advanced countries themselves suggests..., each one of these ends can be achieved in a large number of different ways....”

Therein lies the difficulty in generalizing, and finding “best practices” to transfer across countries. Country and context specificity is the constant pull away from generalizations

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<sup>37</sup> For an example of the technical issues discussed and addressed, see Behrman and Todd (1999)

<sup>38</sup> See <http://info.worldbank.org/etools/icct06/welcome.asp>

<sup>39</sup> Das, Do and Ozler (2004),

<sup>40</sup> See the World Bank website <http://info.worldbank.org/governance/wgi/index.asp>, and Kaufmann, Kraay and Mastruzzi (2008).

based on cross country regressions using the sorts of indicators developed by Kaufmann, Kraay and Mastruzzi (2008).

The more micro oriented strand in the literature is more interdisciplinary in nature and, not surprisingly, also emphasizes context specificity. It is perhaps best exemplified by the World Bank's World Development Report 2004, "Making Services for Poor People." The report focuses on "the relationships of accountability between policymakers, service providers and poor people" and proposes that this can be done "by increasing poor clients' choice and participation in service delivery, so they can monitor and discipline providers; by raising poor citizens' voice, through the ballot box and making information widely available; and by rewarding the effective and penalizing the ineffective delivery of services to poor people."<sup>41</sup> But once again, the question might be asked—how exactly are these three things to be done? Generalizations are difficult, and experiences across countries are useful only if their limitations are recognized.

The last twenty years have seen a move away from policy prescriptions disembodied from the institutional context, and towards a more explicit recognition of the importance of institutional structure. This is a major difference from the mid-1980s, when I wrote Kanbur (1987)—indeed, that paper reflect the somewhat technocratic tenor of the times. However, with the recognition of the importance of institutions on the policy front, and after an initial phase of attempting to implement uniform "best practices", there is now considerable uncertainty encapsulated in the importance of context specificity of appropriate institutional design.

### **4.3 Macroeconomic Crises and Safety Nets**

As noted earlier, most macroeconomic policy debates have a perennial feel to them. Issues of exchange rate management, fiscal balance, monetary policy etc were very much present in the 1980s and before. In this sense, therefore there is far less that is new on the macroeconomic perspective on poverty.

However, there is one macroeconomic issue that was not prominent in the same way as it is now. Perhaps the single most striking global macroeconomic phenomenon of the past two decades was the financial crisis of 1997, centered on East Asia but with repercussions around the world. The implications for growth and poverty reduction were dramatic. By some estimates, the gains of a decade were wiped out overnight in countries like Indonesia.<sup>42</sup> Except through natural disasters, such rapid reversals, such vulnerability, were not really part of the mental make up of the mid 1980s.

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<sup>41</sup> See

[http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/0,,contentMDK:20313941~isCURL:Y~pagePK:478093~piPK:477627~theSitePK:477624,00.html#2004\\_Making\\_Services\\_Work\\_for\\_Poor\\_People](http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/0,,contentMDK:20313941~isCURL:Y~pagePK:478093~piPK:477627~theSitePK:477624,00.html#2004_Making_Services_Work_for_Poor_People)

<sup>42</sup> For a detailed assessment of the impact of the crisis on income and non-income dimensions of the standard of living in Indonesia, see Strauss et. al. (2004).

East Asian economies are now mostly recovered from the financial crisis, and are back on their growth paths. The problems they face now seem to be more those of too much capital inflow, rather than capital flooding out. But the crisis colored policy discourse quite dramatically over the past decade. Research of the past few years, even from the IMF has been cautious about the benefits of capital market integration, and has emphasized the need to manage the risks and to open out with care in sequencing.<sup>43</sup> Asian countries have built up significant reserves to protect themselves against outflows, and perhaps against being forced to have recourse to the IMF.

From the point of view of poverty, however, the crises of the mid 1990s brought to the fore like never before the issue of safety nets and cast it in a newer, sharper, light. The discourse of the 1980s had developed a negative view of transfer schemes such as food subsidies, and broader social security schemes like pensions. It was argued, quite rightly in many cases, that these schemes represented major fiscal exposure while at the same time being poorly targeted towards the poor. A leading illustration in the 1970s, for example, was the Sri Lanka rice subsidy scheme, which was dismantled in the late 1970s and early 1980s.<sup>44</sup> But the macroeconomic crises, together with possible negative effects on some poor of policy reform, led in the 1990s to a revisiting of transfer schemes as response to crisis. The popularity of public works schemes to counter short term downturns in economic activity grew. India's National Rural Employment Guarantee Act of 2004 is the latest. True, the discourse on the rationale for these mixes up the micro and the macro, but the sharp macroeconomic downturns experienced by many countries in the mid 1990s, and the expectation that such downturns were more likely in a globalized world economy, is a significant explanation. The consensus against safety nets has turned and, fully cognizant of the lessons of the earlier period on targeting and on implementation, and in concert with other rationales for transfers (like keeping children in school), there is now far greater openness to them as policy instruments to manage distributional risk from macroeconomic and microeconomic shocks.

#### **4.4 Global Public Goods**

The financial crises of the 1990s highlighted the interlinkages in the world economy, and the vulnerabilities of the poor in one economy to events in other countries, perhaps very far away. Since the 1990s the policy discourse has become attuned to global public goods, or more generally cross-border public goods and the role of international public policy in providing them. The issues covered under this umbrella include green house gas emission, global forest cover, migration and refugees, financial contagion, water basin and riparian rights management, and the spread of diseases.

There is nothing particularly novel at the conceptual level about these phenomena. The public economics techniques of the 1980s and earlier can be easily adapted to frame the issues. When there are cross border externalities there is a gain from coordination, and thus a gain to development if some or all of the countries involved are developing countries. But the coordination mechanism itself is a public good, and there will be a

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<sup>43</sup> See for example Kose, Prasad and Rogoff (2006)

<sup>44</sup> See Anand and Kanbur (1991).

tendency to underinvestment in such mechanisms for the usual reasons. There are thus gains to coordination. If the costs of this coordination can be borne by richer countries, then to the extent that the cross-border public good benefits poor countries these resource inputs can legitimately be claimed to be development assistance.<sup>45</sup>

All of the above was understood twenty years ago or more. What is new is the veritable explosion of discussion, debate, and action on the design and financing of these coordination mechanisms. Particularly in the environmental arena, from the Montreal Protocol to the Kyoto agreement to the clean development mechanism and carbon trading, there has been continuous concern and response to the concern over the past two decades. Indeed, there is an argument to be made that this has been the greatest period of international institution building since the burst that followed the Second World War. The continued concern on climate change and how it and the attempts to mitigate it will impact on poor countries and the poor countries, will ensure that this policy issue stays on the agenda in the coming decades. Yet it was almost totally absent from the discourse twenty years ago.

## 5. Conclusion

This paper adopts the “Rip Van Winkle” stratagem, of asking what differences would be noticed, in the domain of poverty and distribution, by someone who fell asleep in 1987 (the year I published my IMF Staff Papers piece, Kanbur (1987), and woke up only in 2007 (the year I visited the IMF to work on this paper). In one sense there is tremendous continuity—the discourse on poverty lines, poverty measurement, the inequality-growth relationship, fiscal balance, costs of inflation, public works schemes, food and energy subsidies, etc., would be very familiar to a visitor from two decades ago. But there are also discernible differences. I have highlighted ten such differences under three broad headings. Under facts and empirics I have emphasized (i) the tremendous increase in household survey information for developing countries, particular for Africa, (ii) the sharp increase in inequality in most countries over the last twenty years, compared to the previous twenty years and (iii) the dominance of macroeconomic cross country regressions and the rise of microeconomic randomized evaluations, compared to the demise of computable general equilibrium models and project evaluation. Under concepts and theory the paper highlights (i) poverty dynamics and risk, (ii) gender and intrahousehold inequality and (iii) multidisciplinary as distinguishing features of the past two decades compared to the two decades previous. Finally, under policies and interventions I pick out (i) conditional cash transfers, (ii) governance and institutions, (iii) macroeconomic crises (iv) global public goods as being part of the discourse of poverty and distributional policy in a way that they were not when I wrote my paper, Kanbur (1987), two decades ago.

This paper is idiosyncratic. But I trust it is interesting and can spark your own thinking about the defining features of the last twenty years. I hope it does not put you sleep. But if it does, and it does so for twenty years, I suppose the compensation is that you

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<sup>45</sup> In a series of papers, I have explored the implications of the theory for practical aspects of international agency operations, particularly the World Bank. See Kanbur (2003b, 2004, 2005)

will be able to ask the same question that I have posed—what’s different now from twenty years ago?

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