

The complementarities of poverty reduction, equity and growth :  
a perspective on the World Development Report 2006

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## **Abstract**

*The paper has two related objectives. First, it offers a critique of the way poverty and inequality have become central in the development discourse of donors and international agencies. Secondly, it offers a review of the World Development Report 2006 on Equity and Development, and its emphasis on the instrumental role of inequality in development. The reduction in poverty is obviously important in discussing and analyzing development, but it is only a proxy measure of what successful development achieves. As such targeting it induces some errors just as it eliminates others. So central has the concept become, aided by the fact that it poses intriguing challenges of measurement, that these errors have been forgotten. The addition of equity as a concern unfortunately reinforces the errors that are made by privileging poverty, prioritizing strategies which reduce poverty in the short term over long term development. The WDR overextends the role of inequality and redistribution in development processes, by overemphasizing relevant but particular efficiency-equity complementarities, by conflating domestic and international equality issues, and by naïvely integrating economic and political equalities.*

## 1. Introduction

In a celebrated psychology test, an audience is shown a short film of a basketball game and asked to count the number of passes (Simons, 2004). Typically, around 90% of the audience give the correct answer but completely fail to notice that a large gorilla walks slowly through the players: attention to detail has an opportunity cost. Perhaps something like this has happened in the development discourse on poverty.

Over the past decade the predominant metric of progress in development has come to be the reduction of absolute poverty. The choice of absolute poverty was essentially a political solution to a range of political problems. One problem was that the popular image of the World Bank had been so badly damaged by public perceptions of ‘structural adjustment’ that the agency needed an objective that signaled that it ‘cared’. A second problem was that there was a clear need for some reasonably specific and measurable objective to assess agency performance. By the 1990s those electorates that funded aid were highly doubtful that it was effective and as a result aid finance was in rapid decline. Further, poverty reduction offered an objective that could be embraced by the entire pantheon of development agencies and so offered the prospect of coordination that had otherwise proved illusive. Beyond these, the overriding problem was that the left, which was the only part of the political spectrum that favored aid, was mainly concerned about inequality within societies while being deeply suspicious of the normal process of economic growth: a focus on ‘the poor’ offered the possibility of compromise with this critical lobby.

The privileging of poverty reduction worked well in terms of the first three objectives: the image of the World Bank improved; agency performance became more oriented to the ‘result’ of poverty reduction, and all agencies signed up to the Millennium Development Goals, of which poverty reduction was the overarching objective. Since the absolute number of those in poverty was still rising, the need for aid was evidently increasing, and aid flows duly reversed their rapid decline. Only the fourth problem remained illusive: the critics of a market-oriented development paradigm remained

largely unreconciled to growth, wanting to bring social inequality to the fore as the central challenge of development.

The *World Development Report 2006: Equity and Development* of the World Bank represents, in the political sense, a further effort to build a bridge towards this critical lobby. It offers the convenient proposition that whether or not the reduction of social inequality is viewed as an objective, it is advisable because it is an obstacle to growth. Hence, the choice of objective can be sidestepped. The inequality in question is not of outcomes but of opportunities: the 'level playing field' becomes the objective around which both those who broadly trust market processes and those who broadly distrust them can unite: an *unlevel* field is both unjust and inefficient. At the same time, and unlike most recent *World Development Reports*, much effort is devoted in documenting the scale of inequalities within countries and across the world. The *Human Development Report, 2005* of the United Nations Development Program, published around same time as the WDR, while not exclusively focusing on inequality, also emphasizes the scale of inequalities, and touches on the case for growth benefits of reduced inequality.

In this paper, we do not intend to question the proposition that there are relevant circumstances in which this is correct so that equity can indeed be reconciled with efficiency. Understanding these processes remains a fruitful area of research, not least at the empirical level. But as general metrics of progress in development neither poverty nor equity are adequate: both individually and jointly they are liable to induce strategic errors. They may well be politically convenient for aid agencies, but their elevation to the status of ultimate goals comes at cost. Just as we may fail to spot the gorilla running through the crowd, this new consensus among the aid community may take away our focus from those factors that will ultimately serve the citizens of the developing world best, in terms of sustained improvements in their standard of living.

The structure of the paper is as follows. In Section 2 we discuss how donors have used 'poverty' and 'inequality' for their own purposes. In effect, policy implications have been derived casually but predictably from these concepts. This is not, of course, a critique of

the academic literature on these matters, but it is something of which academics should be aware. In Section 3 we turn to World Development Report 2006, and the way it uses the academic literature itself. We suggest that the WDR stretches the term ‘equity’, making three unhelpful conceptual confluents. Again, these lead to misleading inferences about policy.

## **2. Donor use and abuse of ‘poverty’ and ‘inequality’.**

The focus on poverty and inequality is not a self-evident choice for assessing the success of the development process. We first discuss the normative base and then turn to the opportunity costs of a narrow focus on poverty and inequality.

### *The normative base*

Both absolute poverty and inequality are legitimate metrics of the distribution of income and wealth in a country or across countries. It is useful information, and tells us something about what is going on. How much importance one wants to give them is, however, a normative choice.

Agreements about the norm of absolute poverty are driven by a strange coalition. For ‘progressives’ it is viewed as part of a battle that is not confined to the poorest countries. For ‘conservatives’, who have deep suspicions of aid in general, spending on ‘the poor’ or for ‘humanitarian reasons’ is seen as a solution to a political dilemma. Both views are potentially deeply patronizing, since any sense of a social contract between a government and its citizens - a domestic social welfare function - is shelved. A social welfare function that only attends to the concerns of the poor is not a necessary, or even a likely, outcome of democracy. Both theory and the domestic spending priorities observed in the richer democracies point to the clear dominance of the median voter, and not to an exclusive focus on the poor. For good reason, the international community advocates democracy. A corollary is surely that the society should be left free to determine its own social welfare function, which is unlikely to be exactly coincident with the minimization of poverty.

Thinking about a social welfare function in the context of growth would involve some sort of weighting of the growth incidence curve (Ravallion and Chen, 2003). The democratic political process generates such a weighting. Alternatively, at the moment the international donor community imposes one without recourse to any democratic involvement of the affected population. If, as is typical in many low-income countries, around 40% of the population falls below the poverty line, the democratic process is unlikely to ignore the ‘non-poor’ majority. Indeed, different democracies are likely to produce very different weightings of the growth incidence curve as is evident from a comparison of the choices of Swedes and Americans. Donor governments are exhibiting policy incoherence in advocating democracy while trying to impose their own weightings.

Against our view, it is sometimes argued that in ‘signing up’ for the MDGs all governments have in some way committed themselves to the acceptance of donor policy priorities regarding poverty reduction. Similarly, donor agencies sometimes suggest that their emphasis upon social participation in the *Poverty Reduction Strategy Papers* reconciles the process of domestic choice with donor priorities. The reality is that recipient countries are ranged along a continuum of democratization. Approaches that are legitimate in countries radically lacking in democracy are illegitimate in countries with functioning democracies. In the former, *faux de mieux*, the international community may need to act on behalf of ordinary citizens, so that insisting on the MDGs and the participation of social groups in PRSP consultations is better than nothing. In the latter, it is a cynical abuse of donor power to suggest that signing up to the MDGs overrides the democratic choices of the society: signing up was something which no government of a small and poor country could in practice avoid since it was linked to the promise of aid.

### ***The opportunity costs***

The move from the Copenhagen Social Summit of 1995 to the Millennium Development Goals of 2000, of which poverty is explicitly a part, in one sense marks an important

advance in policy awareness from focusing on inputs to focusing on outcomes. However, it has three opportunity costs.

First, the presence of explicit targets creates a demand for measurement. The myriad complications of the measurement of poverty and inequality risk crowding out a focus upon the processes of income generation and hence how poverty arises. While measurement can be a useful component of understanding these processes, it is neither necessary nor sufficient, and so, given the scarcity of analytic resources, comes with an opportunity cost. The point is not that measurement is unimportant: time and energy should indeed be devoted to it since concepts of poverty and inequality contain information. But its relative dominance of the discourse distracts from understanding how absolute poverty or even inequalities emerge.

Second, and more importantly, the focus on identifying ‘the poor’ creates the impression that the most efficient policies to reduce poverty and inequality are self-evident: what appear to be required are simply redistributive transfers to ‘the poor’. In a more subtle way, government budgets and aid strategies come to be evaluated in terms of whether they directly contribute to poverty reduction. Similarly, reducing inequality is implicitly treated as costless: redistribution has no adverse general equilibrium or political economy effects. The implicit analytic framework is comparative statics: more equal societies do better than less equal societies, *therefore* the less equal societies should become more equal. But here lies the problem: even if more equal societies do better, there are few institutional contexts where redistribution can be done ‘painlessly’. Banerjee et al. (2002) analyze one such case, the redistribution of tenancy rights through Operation Barga in West Bengal. However, such stable institutional contexts are rare. In Ethiopia the land reform of 1976, while perhaps sensible in isolation, was part of a more fundamental upheaval which created a collapse of the entire rural economy. In Kenya and Tanzania the state was insufficiently effective to implement changes in land rights on the ground: the radically different government strategies of land titling and collectivization in the 1970s, respectively, appear to have had no effect (Pinckney and Kimuyu, 1994), and have now been unwound (Ensminger, 1997). Indeed, the same sort of statistical evidence that

suggests that more equal societies grow faster, also suggests that *changes* in inequality – even equalizing changes – are detrimental (Banerjee and Duflo, 2003).

Third, and most crucially, development is about long-run growth in living standards for ordinary people. If policies are assessed on the criterion of short-run reductions in poverty, large errors are likely. Even were the appropriate metric of development success to be poverty reduction, its measurement should be dynamic. That is, the best development path would be that which minimized the discounted sum of future poverty. The growth strategy that achieves this minimization is likely to be substantially different from a strategy which minimizes poverty in the short run. A clear way of bringing down absolute poverty today is to change policies in such a way that current household consumption is higher at the expense of future consumption. Conversely, a widely-spread tax the revenue from which is used to build roads will increase both poverty and growth. In any particular context the key components of a successful development strategy might be clear enough: it may, for example, be investment in the infrastructure needed by firms in new export activities. However, the short-term payoff in terms of poverty reduction may be negligible and it may increase inequality, while the long term pay-offs are inevitably uncertain. It will always be possible to find alternative uses of resources which in the short term are manifestly more ‘poverty-focused’ and hence yield more reliable ‘results’. An emphasis upon ‘poverty’ and ‘results’ thus biases development strategies away from growth in living standards.

Taken together, these three biases promote policies that redistribute both from the future and from the majority of the economy, to those who are currently poor. Such redistributions are doubtless capable of reducing current poverty, and indeed, quite possibly of eliminating it. The great historical example of this prioritization is obviously Cuba. More populous and current examples are Venezuela under President Chavez, and much of North Africa. Through their redistributive strategies Cuba and North Africa have largely eliminated poverty and Venezuela may well do so. These are, however, not models to be emulated but rather disastrous development cul-de-sacs.

That Cuba, North Africa and Venezuela are not development models is not merely the judgment of economists. Despite the elimination of poverty, Cubans and North Africans vote with their feet to get out and those who leave do not return. Emerging evidence suggests that the low-income countries to which citizens are most willing to return once they have left are China and now, but strikingly only very recently and tentatively, India. Obviously, despite its acute increase in inequality in recent years and its political context, China offers hope that the future will be prosperous for ordinary people: that the lives of their children and grandchildren will not be fundamentally more limited if they live in China than if they live elsewhere. It is this credible prospect of international convergence that is in our view what ordinary citizens of developing countries want. Offering a credible future for developing societies is what development agencies should have as their objective.

### **3. Is Equity Instrumental?**

We now turn to the core thesis of the *World Development Report 2006*, namely that equity is instrumental in the growth and development process. The concept of equity used for this thesis in the WDR is equality of opportunity, although it has to be said that a large majority of its examples of inequality actually concern outcomes.

The general argument is that ‘greater equity can in the longer term underpin faster growth’ (p70). This thesis is overarching: it is applied in radically different contexts. One of these is the efficiency of resource utilization within an economy. Another is the application to issues of inequality between countries. A third context is its application to issues of political inequality. We will argue that so applied, the thesis is radically over-extended. While the thesis is robust when applied to the analysis of inequality of opportunity in particular contexts, notably the credit market and blatant cases of stigmatization and discrimination, it cannot credibly offer a more general account of the instrumental role of equity. We take these three conceptual conflation in turn.

### *The efficiency-equity trade-off within a market economy*

Economic theory has in recent years clarified the circumstances in which the standard neo-classical trade-off between efficiency and equity does not apply. A necessary condition is that particular markets are imperfect. As is well known, the presence of market failure may justify welfare-improving interventions. To do so, the market failure needs to interact with inequalities in such a way that those with low wealth are more severely constrained in their behavior than those with higher wealth. A consequence is that efficiency losses are more substantial for low-wealth groups than for high-wealth groups. In this situation redistribution of wealth could be efficiency-improving.

The standard example is the functioning of credit markets. Constraints of information or enforcement may induce lenders to use wealth as collateral, thereby restricting credit for the low-wealth group. For non-increasing returns to scale and common technology this would imply that the marginal return to capital for the low-wealth group is higher than for the high-wealth group. This implies that there are opportunities for redistribution that would also generate gains in overall efficiency as returns to capital are equalized. The *World Development Report* carefully develops this example in chapter 5, on *Inequality and Investment*. In the development of the overall conclusions, in the Overview chapter, it is reiterated, and the example becomes a central part of the argument for the instrumental role of inequality.

Even in the credit market these conditions can easily be violated. As the WDR acknowledges, (p102), low-wealth households may face entry costs or thresholds to the more productive technologies, thereby undermining the efficiency case for marginal redistributions. How relevant is the example of the credit market for other factor markets? Widespread risk and the failure of insurance markets may fit the credit market case, since credit can provide an obvious insurance-substitute. Furthermore, the ability to cope with risk is closely linked to wealth. Consider, however, whether the argument extends from financial capital to human capital. The Report opens with a resounding example of educational inequality: in the same society one child will complete tertiary education and

another will have next to no education. This may well be unjust, but under what circumstances is it an opportunity for efficiency-enhancing redistribution of education?

There can indeed be such circumstances. From the point of view of the child with no education the lack of opportunity is likely to be linked with a lack of wealth. Education is an investment with a high sunk cost so that low-wealth households may not be able to finance it. The credit market failure as described above is then relevant and redistributive policies would allow a more efficient use of the human potential of the low-wealth household. However, this only considers the benefits to the low-wealth household. The redistribution must imply reducing the educational achievement of the high-wealth household. Any efficiency argument will have to take this into account. One way in which there could be net efficiency gains from such redistribution is if there are ability differences between households. Provided that these differences are unrelated to wealth, redistribution would better align educational opportunities with abilities and so increase the efficiency of educational resource allocation.

In effect, this argument is analogous to the ‘threshold’ effect of differences in technologies discussed above in the context of the credit market, but with the reverse implication. Whereas low-wealth households may be excluded from the more productive technologies, now it is the high-wealth households that are using education less productively because at the margin they are conferring education on less-able children. Any tendency of wealth and inherited ability to be correlated would, of course, undermine this argument. Further, the argument is still dependent upon non-increasing returns to common technology and in the case of human capital this is far more contentious than in the case of physical capital. The WDR quotes mean rates of return to education (p101) to suggest that returns to education are substantial. However, this misses the point. The key issue is the shape of the returns function within an economy. At least for Africa there is systematic evidence that private returns are convex: in other words, there are increasing returns to education (Söderbom et al., 2005; for the US, see Belzil and Hansen, 2002). Convex private returns do not necessarily imply convex social returns. However, in small, badly-governed societies the social return to creating a

critical mass of people with sufficient education to devise and implement strategies for change may be enormous. It is clear that under increasing social returns to education, redistributing education from the highly-educated to the less-educated, while enhancing equity, unambiguously reduces efficiency. The parable of efficiency-enhancing equity does not even readily extend from the market for financial capital to the market for human capital. Over the past decade the priorities of 'education for all' have indeed shifted spending from tertiary to primary education: this is a practical example of the power of the poverty and equity metrics. Whether this shift was either efficient or beneficial for longer term development is unclear.

Of course, it may well be appropriate to expand educational opportunities at the bottom without reducing them at the top. The *World Development Report* nowhere specifically argues for redistribution of education from the rich as the appropriate policy mechanism to increase the education for the poor. However, in this case redistribution and equity are an inappropriate banner under which to promote a simple point: that increasing the total stock of human capital may well increase efficiency and that educating the poor is an obvious choice for boosting the total stock, with a beneficial poverty reduction and equity impact. This has little to do with redistribution. It also avoids the question whether educating a few more people to a high level may be better than educating a lot more at low levels.

Not only does the example of efficiency-promoting equity not readily generalize from the financial market to other factor markets, even in respect of the financial market the proposition does not usually constitute a case for redistribution. The lack of an efficiency-equity trade-off in particular circumstances stems from the interaction of inequalities with market failures. Redistribution is at best a second-best policy response from an efficiency point of view: addressing the underlying market failures should normally be the priority. For example, the key lesson of successful microfinance institutions is not that it is worthwhile to offer credit to poor people in any form, but rather that particular institutional arrangements, with sensible incentive and enforcement structures, succeed in remedying market failures affecting the poor.



### *Domestic versus global inequality*

The *World Development Report* excels in presenting evidence of inequalities across the world, both between and within countries. Reducing domestic and global inequities – offering a level playing field both within societies and internationally - are seen as complementary measures with potentially substantial growth impacts. We will argue that this conceptual conflation of domestic and global inequity is misleading and misses the point.

Statistics of global poverty and inequality levels miss a key part of the development catastrophe of the past thirty years. This is that a large group of low-income countries, largely in Africa, and with a combined population of around one billion have, for a variety of reasons, failed to grow. Meanwhile in the rest of the developing world, which is to say a large majority of it, growth has been accelerating, decade-by-decade. Since 1980 the stagnant billion have been diverging from the other four billion at an average rate of around 5% per year. The result has been an astounding rate of divergence, resulting in a massive absolute inequality between the stagnant poor countries and the rest, with a gap in the order of magnitude of 5:1. Whether per capita incomes have been slightly in decline or slightly increasing in the countries stuck at the bottom is a second order issue, as is their trend in absolute poverty: the vital fact is of radical divergence. Quite evidently, it is not viable in a world with easy international mobility to have a billion people at the bottom in countries that are diverging from the rest of the world. Both for their sakes and for the sakes of everybody else international action will have to change this situation and it will be difficult because it has been so persistent. This is the overwhelming challenge of development in the coming decades.

Convergence is clearly about inequality: if convergence is the objective, international inequality most certainly matters. Superficially, this sounds like at least part of the message of the *World Development Report*, but it is not. Although the WDR includes international inequality it is overwhelmingly concerned with social inequality – inequality within societies. Further, it defines this concern as equality of opportunity, not

of outcomes, and then extends this concern to the international scene: poor countries are poor relative to rich countries because they are not facing a level playing field of opportunities. This conflation of international and social inequality is dysfunctional. The inequality that matters internationally *is* about outcomes, irrespective of the extent to which they are explained by unlevel international playing fields. It is the brute fact of the failure of countries such as Sierra Leone, and Zambia to grow that is the problem, regardless of its cause. Furthermore, the contribution of unjust international rules to the dreadful circumstances of the poorest countries is utterly minor: Sierra Leone exports diamonds, as does the fabulously more successful Botswana. Zambia exports copper as does the fabulously more successful Chile. The overemphasis of international injustice in the WDR feeds the paranoia that has been so disempowering within stagnant economies. Local elites are only too willing to accept that international injustice is the cause of the problems of their economies, since it provides an easy alibi. Of course many of the rules and structures of the international economic and political system are unfair, or more usually unheeding, of the needs of these countries. Of course something should be done about it, not least since it will offer better growth opportunities. But as an explanation for the failure of the growth process in them it is quite inadequate.

So far we have begged the question as to why some states have suffered persistent failure of the growth process whereas most have not. There is no one 'trap' that accounts for all failures. But understanding that there are traps is critical in understanding what we can do to break out of stagnation. The WDR considers divergence only in the most superficial way. For example, it investigates what the numbers show if China and India are excluded. But the developing world minus China and India is not a meaningful aggregate: it is not based on any characteristics that could be used to diagnose the nature of a problem. It is merely a crude bit of statistical fishing around.

The countries where the development process has failed do not need a level playing field, they need large and sustained affirmative action. Some of this, as we will discuss, involves a degree of *injustice* to more successful though still poor developing countries: expediency not justice is the honest basis for much of the necessary international action.

We will here take one example of a policy that exemplifies the difference between a focus on growth convergence, as opposed to the international level playing field. It is trade. The WDR goes through the usual litany of trade inequities, with all of which any reasonable economist should concur. Agricultural subsidies and protection should be eliminated; intellectual property rights should not be extended to low-income countries in such a way as to produce an income transfer from them. But do these measures get to the heart of the problems of the stagnant countries? We think that one important class of such countries have ‘missed the boat’ of breaking into OECD markets for manufactured and service exports. Such diversification, where it is feasible, is massively advantageous for development: globally, it is the coastal, resource-scarce countries that have developed most rapidly, since these are the countries that are not debarred from export diversification either by Dutch disease or transport costs.

The great moment for breaking into world markets was the 1980s. It is now surely much harder because the low-income Asian economies are already established in these markets. That is, they have already accumulated the agglomeration economies that were for many years so critical in maintaining the competitiveness of the OECD economies despite their high wages. The late-comers do not yet have markedly lower wages than Asia, and so their lack of agglomeration economies makes them uncompetitive. Protection of their domestic markets is, of course, at best irrelevant: their tiny markets dominated by low-income consumers are not a viable preparation for exports to OECD markets. Yet to break in to OECD markets the countries that have missed the boat do need temporary protection – but from Asia. That is, countries such as Kenya, Ghana, Madagascar and Senegal, need protection in OECD markets from Asian competition. This cannot, except by violence to language, be described as leveling the playing field, or ‘trade justice’. The most reasonable description is that it is expedient. The OECD is currently only operating such preferences as gestures: the Africa Growth and Opportunity Act in the USA, Everything but Arms in the EU, and nothing equivalent even to those seriously flawed schemes in high-income Asia. Probably what is needed is an OECD-wide scheme, with a time frame of around a decade, and rules of origin that can be fine-tuned to achieve rapidly rising targets of manufactured exports from the stagnating countries.

Contrary to the WDR, the rapid divergence of some poor economies therefore does not imply the need for ‘equality of opportunity’, but rather for affirmative action to reduce inequality in outcomes. Further, the importance of reversing this international divergence breaks the link the Report suggests exists between international inequality and domestic (social) inequality. Reversing international divergence is likely to require widening inequality within the societies stuck at the bottom.

It is the educated who are becoming globally more mobile, rather than the uneducated. Skill shortages in richer economies actively and increasingly offer opportunities to highly educated and skilled people. The societies at the bottom are chronically short of skilled people, and to keep them they will increasingly need to offer incomes that are at least loosely related to global levels. In the context of divergence this implies that the higher-income groups must be offered increasingly wide differentials from the rest of society. Social inequality in these societies is a partial consequence of their overall economic failure, as only a minority attains the lifestyles that are normal in other societies. Suppose that the educated minority in a low-income society is willing to make modest but not large sacrifices in order to stay resident. To give a realistic but painful example, it may demand educational provision for its children that is far too expensive for the society to adopt as a norm. Those societies that choose equity, or have equity imposed upon them by international priorities, may then lose their educated people and perhaps never accumulate the critical mass needed for change. Even global equity is not served by such an outcome: the educated are better off as a result of migrating. The possibility of a sharp trade-off between equity and development in the societies that are poor and stagnant is certainly uncomfortable. It runs radically against the grain of the consensus-building political discourse that the development agencies have learnt to adopt. But it should surely have been explored.

In one sense, this dilemma is indeed generated by an inequality in opportunity at the international level, stimulated by migration policies: educated and wealthy people find it much easier to emigrate to rich countries than do the uneducated. But the policy reversal

implied by the 'equality of opportunity' principle, that rich countries should open their doors so that *everyone* should be able to leave the failing societies, is not politically feasible; it may also not be desirable. The normative consequences of the loss of entire societies cannot be adequately captured by the conventional economic calculus of gains to individuals: if the entire population of Africa were successfully absorbed in the US, there would be a loss. Development policies should attach some weights to sustaining distinct societies.

The reality of global inequality offers few alternatives. Offering a credible future to skilled people in developing societies creates the basis for change and development. When taking into account international migration possibilities, promoting equality in these societies could thus reinforce their stagnation. If their economies grow sufficiently rapidly, that growth may increasingly create equalizing opportunities, but it is convergence that will create the possibility of equality rather than equality which will create convergence.

### ***Economic versus political inequality***

Some aspects of equity are indeed fundamental to the success of the failing societies but they are primarily political and legal. The lack of government accountability and weaknesses in the rule of law have been at the heart of the growth failure in many countries. While in some ethnically homogenous societies, notably China, autocracy has been consistent with rapid development and may even have assisted it, in more diverse societies it has usually been disastrous. In other words, and powerfully argued in the WDR, basic political equality and equality before the law often appear to be essential features for successful development.

The conflation of accountability and the rule of law with other aspects of equity is, however, again misleading. There can be trade-offs both between democracy and economic equity and between the rule of law and economic equity. When Cuba eventually democratizes it will most surely become more unequal, as would many

societies if they succeeded in transforming themselves into replicas of the USA or even Sweden. The core aspect of the rule of law emphasized in economic development is the defense of property rights. By definition, property rights reflect existing, and possibly highly unequal distributions of income. The strengthening of property rights, a strategy indeed important for development, is likely to inhibit moves to economic equity: indeed, the proposition is scarcely controversial. That the WDR could so gracefully elide between its espousal of equity and its espousal of property rights is thanks to the helpful phrase ‘equality before the law’. But such language is surely more reasonably seen as papering over a trade-off than as demonstrating a complementarity.

## **Conclusion**

Concern with poverty and inequality is not misplaced, but donors have overextended its role in different ways. They implicitly subscribe to a selective normative view of other societies. This view is unlikely to be consistent with those generated within the societies themselves through democratic processes. It is not even a view to which the electorates of the donor countries usually subscribe when choosing their own governments. The imposition of these priorities is at once too radical and too conservative. It is too radical in that its imposition on the societies that are poor and stagnant, risks removing any remaining incentives for the skilled population of these failing economies to seek a future in their own societies. It is too conservative, in that the agenda of an international ‘level playing field’ is liable to be hopelessly inadequate to reverse the catastrophe of the divergence of these economies at the bottom from the rest of mankind. Furthermore, the focus on monitoring poverty outcomes has contributed to the impression that once ‘the poor’ have been identified, the strategy by which both governments and donors can best address poverty and the lack of opportunities for the poor is self-evident. The goal of targeted transfers has crowded out genuinely strategic thinking about the complex processes of growth in living standards.

The World Development Report has tried to offer a balanced discussion on the role of inequality in a range of development issues by drawing on careful analysis with an eye

for detail. But by making inequality a central, overarching framework for understanding the lack of growth, the WDR has overextended the instrumental role of inequality and thereby inadvertently reinforced the weaknesses of the current development discourse.

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